Challenge

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a personal note

from the editor

the paradox of two ways around to the same goal

AN INTERESTING PARADOX has developed during the past ten years within the labor-management sector of the economy. While businessmen have taken up the line that they intend to do everything they can to keep the economic weather fair, union leaders have been battening the hatches in preparation for a storm.

Since 1945, business has invested an unprecedented 158 billion dollars to carry out expansion and modernization programs. This optimistic outlook was climaxed by a series of recent announcements from the country's largest corporations of the many hundreds of millions each is currently "betting on the future of the economy." At the same time, however, labor unions have worked to build up a system of economic levees to protect the working man from the flood tides of hard times. This mood of pessimism was served this summer, temporarily at least, when large sections of organized labor won so-called guaranteed annual wage contracts.

It is not easy to deal with this paradox, for while delineating it is a simple matter, to resolve it will not be so simple. And resolved it must be, for the entire question of whether we can continue to prosper will depend on how satisfactorily we can reconcile the forces which have shaped this paradoxical situation. Actually, there need not be any basic paradox at all—if only labor and management would not confuse their common ends with their separate means.

What is behind the business optimism? In the first place, business has at last regained confidence in itself after a prolonged loss of face during the thirties. It has studied past mistakes and gained strength from the postwar expansion. The one constant theme in the business tune has been, "keep rolling"—keep up production, stir up demand.

The most painful symbol of the depression of the thirties was the contraction in demand and in production. These were not the only symptoms, but for business it has seemed that as long as production and demand remain high, nothing that looks like a depression can appear on the economic horizon. And though in some instances businessmen have been practicing a form of whistling in the dark,

on the whole, increased business investments at the right time and in the right places have contributed to postwar economic development and relative stability.

At the other end of the labor-management scale is the apparent pessimism of organized workers. The attitude of labor has been that regardless of how well off we are today, we must be prepared, lest tomorrow bring with it the economic tragedies of yesteryears. The labor unions have fought not only for higher wages, but for pensions and economic safeguards against loss of income in periods of unemployment as well.

ACTUALLY, there shouldn't be any paradox in this dual approach to economic stability. What business wants to accomplish by keeping production and demand high goes hand-in-hand with what labor claims the maintenance of purchasing power will do for the economy. Put together, high production, great demand and high purchasing power make an economy that is working fairly well. On the surface, then, it would seem that there is nothing seriously wrong in the paradox we pointed out in the first paragraph of this personal note.

But there is more to this than meets the eye. It is unfortunate that those programs which labor has espoused to win income security contain the very elements which management feels will cut down the ability of business to continue investing for modernization and expansion. It is also unfortunate that the unions feel they cannot trust business, on the basis of past experience, to create situations of stability for the worker without the imposition of precautionary measures by the unions themselves.

The anomolies of looking at the nation's economic picture from two different and exclusive points of view became apparent in the strife-torn situation between the Perfect Circle Corporation and the UAW. Company officials pointed out that during the past three years Perfect Circle employees have enjoyed 99.7 percent full employment, and therefore GAW agreements are unnecessary. The union claimed that the weight of history was on its side, and layoff compensation directly from the company was certainly necessary.

It is exactly in situations like this that the paradox takes on its most dangerous form. Where there should be common ends, the different means espoused by labor and management lead to the means becoming ends in themselves. The result is that the future course of the economic system remains shrouded in clouds of uncertainty.—H.B.

Challenge Notes

Farming: statistical and real problems; comparing living standards; productive efficiency and distribution costs

THE BATTLE for next year's election has already begun, and, as usual, the party in power is trying to convince the voters that they have never had it so good, while the party out of power is trying to convince them otherwise.

The "farm situation" has, therefore, all the earmarks of a hot political issue. Democrats are already speaking of a "Republican farm depression," and Republicans are countering that farm prices and incomes were declining long before they got into power. Both Republicans and Democrats, however, seem to be agreed that the farmer's lot is not (economically speaking) a happy one.

Now, we would agree that there is a farm problem—but it is not the problem of a depressed industry. True, *total* farm income has declined by 30 percent since 1947. But these figures are more "statistical" than real, for our farm population has also declined. On a *per capita* basis, the farmer's income has actually increased by 16 percent during the past seven years. Certainly, the individual farmer hasn't been doing too badly.

The fact of the matter is that farming is still a profitable business for those who can compete on the market. It is true, of course—and this is a genuine social problem—that mechanization is making it increasingly difficult for the small farmer with little capital to compete successfully. There are 10,000,000 fewer people making their living off the land today than there were in 1933. But these ex-farmers are presumably sharing in the unquestioned business boom we are currently experiencing. Greater efficiency in farming, as in any other sphere of economic activity, tends to boost incomes and living standards. For those who cherish independent farming as a way of life, the decline of the small farmer is a cause for regret. On the other hand, it is this decline which is partly responsible for

the high degree of prosperity which both the farmer and the rest of the nation enjoy.

Living Standards Compared

AMERICANS are justifiably proud of their high standard of living, but their way of showing this pride has a way of rubbing other nations the wrong way.

Research organizations are always comparing the number of automobiles, bathtubs, or what-have-you that the American worker can buy for x hour's work with what a comparable worker in England, Germany, Spain, etc., could buy with the same amount of work. The U. S. worker almost invariably comes off best.

Such comparisons are significant—but not necessarily as an index of living standards. What they do generally measure is the availability of certain consumer commodities in different countries. But few people would contend that because the French worker can buy more wine per work-hour than his American counterpart, he therefore enjoys a higher standard of living.

A standard of living, unlike a man's purchasing power, is not an economic statistic at all. It measures the availability of those goods which people consider essential for a good life. There are some goods—bread, for example—which people of all nations regard as essential. Such items are more suitable for statistical comparisons.

As a nation develops economically, its list of "essentials" will grow. But these essentials will not invariably include the same items. It does no good to compare the availability of refrigerators in the United States and England unless we know whether Englishmen value home refrigerators as highly as we do.

Distribution Costs Rising

ONE OF the peculiarities of doing business in a highly industrialized economy is that distribution costs often go up even while production unit costs fall. Statistics indicate that distribution costs nowadays account for some 50 percent of the final price of manufactured goods, and the ratio keeps on increasing.

In a sense, this increase in distribution costs is the direct consequence of our ability to cut production costs. Storage, advertising, transportation and other distribution fields will come to employ an increasingly large proportion of the working population. It will be their task to introduce into distribution the same degree of efficiency that has characterized our productive efforts.—M.K.

Human Relations and Conditioning

by Haig Babian

—a continuation of "What Do Americans Think of Capitalism?"

THIS IS the next-to-last article in a series dealing with what Americans think of capitalism, and why. Last month we stated four general areas of human economic experience which seem to have conditioned the public's response to efforts to explain how our business economy works. Our purpose in seeking to analyze these areas, this month and next, is twofold: first, we hope thereby to help make popular economic education more effective; second, we wish to use the occasions, thus presented, to reiterate that a wider understanding of economic phenomena will bring American society closer to a consensus as to economic goals to be pursued and the ways to achieve them.

There is in the United States of America a work force of sixty-five million people. The vast majority of these people do not work for themselves. Some work for an individual owner of an enterprise; but the most popular impression of an American worker is that of a man employed by "a company," large or small, whose ownership is not identifiable in the person of any particular individual or individuals. In this instance, the mantle of ownership, and the onus of "the owner's interest," falls upon the shoulders of management. Therefore, the American worker's world, regardless of the structure of ownership, is divided into two camps: that of employees and that of employers.

This differentiation is projected into the institutional workings of labor-management relations. Management, by virtue of its position as caretaker of the property, is cast in the role of one who wants to *keep* as much for the property as possible. Labor, as the hired hand on the property, must bargain to *get* as much as he can out of the property. These are the mental sets which prevail as labor contract time approaches. It is not surprising, then, that an

atmosphere of hostility, distrust and bitterness often surrounds the ensuing negotiations.

That such a manifestation of conflicting interests runs against the grain of our concept of a classless society is obvious. Therefore, whether it *should* be eliminated is an academic question. But how it *can* be eliminated is not as academic as the facts of the matter are abstruse. There is a growing body of unpublicized evidence which points to the anachronism of work attitudes which draw the line between employees and employers. Until this evidence is effectively brought to light by all the media of public information, the American people cannot be expected to become reconditioned, to alter their traditional response to any question relating to so-called labor-management problems.

WHAT is the evidence which marks the traditional distinction between labor and management-ownership as an anachronism? In the first place, the men who work as managers are not a power unto themselves. They work for a living, just as the so-called workers do. They are not members of a superior caste. If any of them act as if they were, that is a sure sign that they are managers of poor caliber. Their jobs will not be with them for long. There is no union which can protect an inefficient manager.

Management men have no more of a claim to their jobs than do the employees who never see the inside of an executive office. Both groups work for someone else. Who are the owners? Very few are idle rich. Most owners are just people who also work for a living at any one of the thousands of endeavors which a complex economy demands and creates. Out of the 100 largest manufacturers in the United States, 55 have more stockholders than employees! Line workers who are also stockholders are not exceptional these days. Many a union treasury has a portfolio liberally sprinkled with corporate stocks and bonds. In actual fact, then, there *is* a blurring of the lines which once upon a time sharply demarked the worker and the owner. These lines will become more and more blurred with each passing decade.

Then why does the anachronism pointed out above still exist? It exists for the simple reason that the dramatic examples of gain on the part of labor can often be traced to a battle which had to be fought and won against management. Instances of management offering a raise *before* labor even thought of asking for one are dim in living memories—even though such instances are many. The big fights get all the

publicity, and people tend to remember them. People also tend to remember that every time labor gets what it wants for the moment, management spokesmen make dire predictions of how their latest concessions will "lead to disaster, destroy incentive and ultimately put us out of business." Of course, this may be the ultimate consequence, but it hasn't happened yet—at least, not in the general scheme of business—a circumstance which suggests to some people that perhaps union leaders always know how to gamble with the economy better than do management representatives. This is an unfortunate conclusion, since it does not take into account that union leaders during the past twenty-five years have played their cards with the assistance of a political mirror advantageously placed behind management's back. Also forgotten is the fact that the stakes, no matter which side holds the winning hand, can never belong to anyone but the people—including labor, management and everybody else.

THERE are happy signs that management is willing to admit that its stake in the economy is not, after all, something exclusive of or different from labor's. The theme of "partnership in progress" has appeared far more in management's organs of expression than in labor's. While this does not necessarily mean that labor will be truculent to the last in attempts to cement a mutuality of interests, it does mean that the dynamics of labor unionism are still more responsive to partisan appeals than to the appeal of public interest. Management, if not always *acting* out the role it has chosen for itself, is at least *talking up* the line that public interest transcends all other interests, including its own. Indeed, by equating its stake in the economy with that of the public's, management has come up with such a good slogan that the words must prove to be more than mere words. Management *must* practice what it preaches—or face the crushing consequences. Management *must* do a good job of explaining its role in the economy, and it must be so effective in these efforts that people, including employees, will listen—or chance whatever fate economic illiteracy might dish up.

Now, this is not a hopeless task with which to confront the management people. All that can be gleaned from the public opinion polls, of which we have spoken in previous articles, does not indicate that people completely misunderstand or distrust management. The Opinion Research Corporation, for example, in answer to the question of which kind of bigness constitutes the greatest

problem in the U. S. today—big business, big labor or big government—learned that 46 percent of the sampling of interviewees felt big labor is the greatest problem; 16 percent named big government; and another 16 percent big business. The remaining 22 percent were indefinite in their answers. Thus, the prevailing opinion is not all pro-labor and anti-business. Business can find an audience, if it speaks convincingly—and with conviction.

The trouble with much of what business has had to say about itself, and the economy in which it operates, is that its spokesmen have chosen to ignore the historical aspects of the working world which most people see as one divided between employees and employers. If they are conscious of that traditional division, they have not made any reference to it in the catalogue of their great performances on behalf of the public good.

By avoiding any reference to the evolution of labor-management relations, the management spokesmen have left the field free to others to remind the public, organized labor and management itself that there *was* good reason to draw the lines of sharp distinction between workers and owners. Thus, instead of placing their present appeals and intentions in the frame of reference of past realities, management is setting up its educational programs in a free moving orbit, so to speak, which neither blazes new paths nor inspires confidence. Such efforts remind people, who "most need to be convinced," of past antagonisms and conflicts and lead them to believe that management does, indeed, have something up its sleeve again.

INSTEAD of calling a spade a spade, instead of taking its lumps as well as accepting the credit which undeniably should be granted to it, management has rushed headlong into the ways of its maturing enlightenment without attempting to spell out how it got that way. Like Athena who sprang full-blown from the forehead of Zeus, the new management of modern American capitalism has sprung its views on public, labor and economic matters without reference to any period of gestation. This strains the credulity of many people, especially of those who work in the nation's mills and factories.

Modern management has still to convince people that it, for one, intends to achieve a joint statement with labor of their mutual interests. It must take the pains and find the constructive methods to present the history of labor-management relations, however painful the facts, in complete sin-

cerity, without rancor and with all respect for economic reality. It must cease to rely upon such palliatives as the many bathtubs we have, the many telephones we use and the many homes we build to sustain faith in the free enterprise system. Such plumbing-standard statistics are too easily dismissed with the pat phrase, "There should be more." Of course there should be more, but saying that does not tell us how we can get more. To help us understand the "how" of the matter is presumably why management wants a wider dissemination of economic information and knowledge.

But even before people will listen to management's ideas on "how," the feeling that labor is on one side and management on the other must be eliminated. This will require an imaginative substitute for present methods of negotiating what labor's share of the economic pie should be. We do not suggest that we know what should take the place of the current forms of labor-management negotiations. We do suggest, however, that if management spokesmen take the initiative—if unions will not—to talk plainly about the need for eliminating those institutional procedures which encourage the notion of separate interests, then the public will demand that a new approach be found.

The time is ripe for management to exercise such initiative. The next generation will find it difficult for many workers to make up their minds whether they are workers or owners, as unions will find it difficult to distinguish between their business interests and their labor interests. We can give time a little push, if once and for all we can destroy the fiction that somehow management men are different from working men. The "our side" and the "their side," which presently colors so much of the public attitude toward the business economy, would disappear. And the public would be willing to accept, at face value, what sincere businessmen have to say. The first area of human economic experience will have been constructively reconditioned.

Next month we shall analyze the other three areas of human experience which condition public response to economic problems. ■

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Disabled Appliances

SOME 5,000,000 disabling household casualties occur each year in the United States. The estimated cost to families—excluding repair or replacement costs for damaged appliances and furnishings—is $1,000,000,000.

The Record Up To Now

by A. H. Raskin

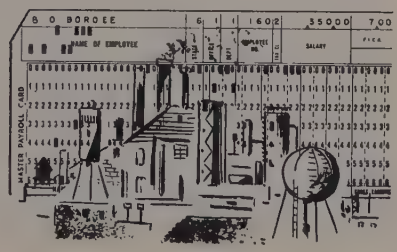
GAW agreements signed this year indicate that some form of company-financed employment compensation will become a fixture in the labor scene

By New Year's Day next January the number of workers covered by wage-guarantee plans will be within reach of the million mark—a total great enough to assure the extension of similar unemployment pay programs to most organized workers in the next five years. The character of the plans may vary widely, but the principle that the employer should provide protection to idle workers beyond that made available by the governmental insurance systems is here to stay.

Labor calls the new concept the Guaranteed Annual Wage. Employers, never able to accommodate themselves to the idea that hourly-rated workers should be paid by the week or month, shrink from the suggestion that the proper yardstick is "payment by the year." Accordingly, industry prefers the technically more accurate description of Supplemental Unemployment Payments.

But whether you talk about GAW or SUP, you are talking about something that will swell the already sizable imposts industry (or the consumers who buy industry's products) must tack on to the sums that go directly into workers' pay envelopes.

Wage guarantees have been a talking point for unions for many years. Indeed, transitory unemployment programs were negotiated by the Amalgamated Clothing Workers in Chicago and the International Ladies' Garment Workers' Union in Philadelphia, Cleveland and New York, long before the 1955 surge of interest in GAW.



But no trail blazer was ready to make the fight in the mass production industries until the United Automobile Workers decided to make GAW a key issue this spring.

The UAW pattern, as evolved at Ford and General Motors, provides for the payment by each company of five cents an hour into a special fund. In the case of Ford, this fund will have an eventual ceiling of $55,000,000. At GM the top figure will be $150,000,000. These figures, both as to hourly contributions and the piling up of reserves, represent the limit of the employer's obligation. If the fund goes broke, he is not subject to special assessment to build it up again. If low turnover brings the reserve up to the contract peak, he stops paying into it.

WHAT does the worker get out of the fund if he is laid off? Once payments begin next June, a jobless auto builder is entitled to 65 percent of his normal take-home pay for a four-week period and 60 percent for the next twenty-two weeks. Not all of this money, however, comes out of the company-financed "kitty." The fund merely provides the difference between the guaranteed percentage and the regular weekly insurance checks the idle worker gets from the state. The largest amount the fund would supply is $25 a week; the smallest $2 a week.

The breakthrough in Detroit led to a general stiffening of battle lines in other industries. The National Association of Manufacturers expressed fear that widespread adoption of the Ford-GM pattern would lead to industrial stagnation, curb employment opportunities and open the door to a catalogue of other evils. It urged employers to resist at the bargaining table and in the legislative halls.

The NAM was convinced that the best way to check GAW was to obtain rulings in every state that simultaneous payments from public and private unemployment funds were illegal. The contracts signed in Detroit would fall if the states held that their checks could not go to men who received additional compensation from a separate industrial fund maintained by their former employers.

On the bargaining front, the union drive made little headway in the first few weeks after the Detroit victories. The East Coast ship operators did agree to put twenty-five cents a day per worker into a wage guarantee fund for their workers. But General Electric, the dominant producer in the electrical industry, won at least three years of immunity from GAW demands by signing a new

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A. H. Raskin covers the labor scene as a regular staff reporter for The New York Times.

long-term agreement without any innovations in the way of unemployment pay.

Just when it looked as if the pep was going out of labor's campaign, David J. McDonald of the United Steelworkers of America put the program back in high gear by signing GAW pacts with the two major can companies, American and Continental. They committed themselves to the same nickel an hour payments as the auto makers, but the guarantee to the workers extended for a full year, not just half that time.

McDonald, an old antagonist of Reuther, made much of the superiority of his plan to that won by the auto workers. The steel union head gleefully announced that he would seek, next year, to extend the can pattern to all of the 1,200,000 workers the union represents in basic steel and fabricating plants. But this may be harder to do than to say, if only because five cents an hour in a steel mill will not buy the same degree of unemployment protection as it does in a can factory.

This is especially true since the can workers must have three years or more of seniority before they can collect their unemployment benefits. Among this group, layoffs are few in the can companies. The auto companies, which have promised protection to men with one year's seniority, have been obliged to make their calculations on the basis of a considerably higher layoff ratio. The steel companies, accustomed to sharp fluctuations in employment when the operating rate tapers off, will have to be prepared in the same manner as the auto manufacturers, particularly if they utilize the same one-year seniority standard.

In September the two biggest glass companies came along with still another form of wage guarantee. They signed agreements with the United Glass and Ceramic Workers, under which the companies will pay the same five cents an hour as the auto and can manufacturers. They will build up a maximum reserve of $600 for each glass worker. An employee who becomes ill for a prolonged period or who is laid off will be able to draw $30 a week for twenty weeks. If his individual reserve is less than $600, his benefits will be on a *pro rata* basis.

FEW AFL unions have manifested much interest in GAW thus far. However, George Meany, AFL president, who will head the combined labor movement when it comes into being this December, has given his blessing to wage guarantees as a general union objective.

The spread of GAW plans appears to have doomed the NAM's hope to block the program through

hostile state action. If the auto manufacturers had been the only ones to sign, it might have been possible to induce the legislatures or the Attorneys General of many industrial states to rule against two-way payments. But it is unlikely now that the states would touch off the kind of political reprisals and industrial unrest that would follow a legislative reversal of contracts peacefully negotiated by industry and labor.

It is the hope of unions that the emergence of GAW will cause industry to lobby for more generous state unemployment compensation payments. This is based on the theory that the more the state pays, the less the employer will have to add out of the supplementary fund. However, there is some reason to doubt that business groups will do anything like as much tub-thumping for higher state benefits as labor would like to see.

When labor crashed through at the bargaining table on employer-financed pensions in the period from 1946 through 1949, employers bestirred themselves to do something about jacking up the federal payments. The theory there, too, was that an employer who had committed himself to a combined payment of $100 a month would save money if the government put up $65 instead of $45. However, as soon as Congress voted higher federal pension benefits, many unions clamored for "more protection" for the workers. Most companies found themselves continuing to pay all they had originally undertaken to pay. The only comfort the employers could take from the whole business was the possibility that they might have been faced with additional claims for payments from their own funds if Social Security had not been liberalized, with the cost coming 50-50 from employer and worker.

Industries with GAW

Automobiles: Ford, General Motors, Chrysler Corp., American Motors, White Motors.

Farm Equipment: Allis Chalmers, Deere & Co., Caterpillar Tractor, International Harvester.

Can: American Can, Continental Can.

Aviation: Bendix Aviation.

Railroad Equipment: Budd Co.

Glass: Pittsburgh Plate Glass, Libby-Owens-Ford.

HOWEVER, in the case of unemployment compensation, employers do not even have that comfort to look forward to. They pay the whole cost of state benefits in the form of taxes and the whole cost of supplementary benefits in the form of contributions to the spe-

cial reserve funds. Many employers are likely to feel that they will simply be accelerating union pressure to step up the percentage of wage guarantees if they team up with labor to force a substantial rise in state unemployment compensation levels.

There is little reason to doubt that all the major unions will seek to build on the present guarantees of 60 and 65 percent. Reuther has said publicly that his goal is full take-home pay for a full year after a worker is laid off. A nickel an hour is a comparatively minor charge when compared with average hourly wages in auto and steel of $2.30 an hour. But guaranteeing full pay for a full year would be a much more expensive business, especially when it is remembered that virtually all the impact of the extended and expanded guarantee would fall on the special fund and none on the state fund. John L. Lewis started his welfare and pension fund in the coal industry with a royalty of five cents a ton. Now it is up to forty cents in bituminous and fifty cents in anthracite.

One interesting shift in the economic positions historically taken by labor and management deserves mention in connection with GAW. Employers have always argued that the so-called merit-rating principle—the extension of preferential tax rates to companies with stable employment records—would provide an incentive for keeping payrolls steady and thus reduce unemployment. Labor always took the view that the nature of each industry and the conditions under which it operated in any given year were much more controlling than tax incentives, and that all industries should be required to pay a uniform tax, so that the stable industries would help pay the costs of those that were, by their nature, less stable.

In putting forward GAW, labor argues that the fixing of a ceiling on the reserve fund gives each company an incentive for holding down layoffs and thus eliminating the need for further payments into the fund—the essence of merit rating. The employers, on the other hand, contend that they have over the years done everything in their power to control fluctuations in employment and that the real determinant is the demand for their products—a factor beyond their control. They see no worth in labor's version of merit rating.

In any event, the decision on how far GAW will go and how expensive it will become is more likely to be decided by the economic strength each party brings to the negotiations in each industry than it is by abstract issues of economic theory. ■

The Future

by Sumner H. Slichter

The resulting increase in unemployment compensation will contribute to the nation's economic stability

WHAT IS likely to be the coverage of agreements providing for supplementary unemployment payments (more popularly known as GAW)? This question is important because the extent of the coverage will determine the general effect upon the economy.

Supplementary unemployment compensation agreements will be confined almost entirely to union men, of whom there are about sixteen million among the employees of private industry in the United States. However, many unions will not push a demand for supplementary unemployment payments, either because the work of their members is too steady, or because the industry or enterprise is in bad financial condition. The belief is that supplementary unemployment payments are likely to spread less rapidly than industry pension plans.

Six years after the pattern-setting pension agreements in the steel industry, supplementary pension plans cover only about twelve million workers. It is a reasonable guess, therefore, that not more than ten million employees will be covered by supplementary unemployment compensation agreements within the next five years. This will be less than one-fourth of the nontechnical and nonsupervisory employees in private industry.

Both the Ford and the General Motors agreements limit the liability of the employer to a contribution of five cents an hour to a reserve fund from which supplementary unemployment payments are paid. Indeed, the obligation to pay supplementary unemployment compensation will cost both Ford and GM far less than the other concessions that they made in their recent settlements with the union. There is little reason to believe that an

obligation costing no more than five cents an hour will affect employers any differently from a wage increase of five cents an hour.

As a matter of fact, an old-fashioned wage increase of five cents an hour would have to be paid for *every* hour worked. The contributions to the reserve fund for supplementary benefits, according to the Ford and GM agreements, need be paid only when the reserve fund is less than a certain ratio to payrolls. After the reserve fund has been built up to the required amount, and so long as it remains above that amount, the employer makes no contributions.

This provision introduces two important differences between a straight wage increase of five cents an hour and an undertaking to contribute five cents an hour to the unemployment compensation reserve fund. In the first place, companies with the lowest layoff rates will be making contributions a smaller part of the time than companies with high layoff rates. This gives the former a slight competitive advantage. A wage increase of five cents an hour, on the other hand, would presumably affect all companies alike. In the second place, contributions to the reserve funds will have a tendency to drop off during the later stages of a boom, when employment is high and funds are at full strength, but when companies can well afford to make such contributions. Conversely, at a time when contributions will have to rise in the middle or the late stages of recessions, this is precisely when a rise in labor costs might be bothersome to some companies. Of course, any company could guard against a rise in its labor costs during recessions by voluntarily making more than the required contributions during good times.

WILL the spread of agreements of the Ford-GM type result in the elimination of small enterprises unable to absorb the new liabilities? As we have pointed out, the Ford-General Motors type of agreement will impose a competitive disadvantage on companies with high layoff rates. Now, it is not necessarily true that large companies are better than small companies in holding down their layoff rates. There may be some industries in which large concerns are better at holding down layoffs than small concerns, and other industries in which the small concerns are more adept. In short, the spread of agreements of the Ford-GM type will tend to favor the companies, whether large or

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small, that have the most efficient and progressive managements.

In any case, so long as the rate of contribution to the unemployment reserve fund *does not exceed* five cents an hour, the net competitive advantage of companies with low layoff rates over companies with high layoff rates will not be large. In nearly all industries, contributions of five cents an hour will pay such large supplementary benefits that no substantial increase beyond five cents an hour is likely to be gained by the unions.

What will be the effect of the Ford-GM type of agreement on the ability of enterprises to find ready sources of capital? A few companies with high layoff rates may find it somewhat more difficult to raise equity capital, particularly if the supplementary unemployment compensation agreements do not spread far enough to have much effect upon consumer incomes during periods of recession. But to the extent that the spread of supplementary unemployment payments helps sustain the incomes of the unemployed and thus limits the severity of recessions, agreements of the Ford-GM type will raise profits and make it easier for enterprises to raise capital from plowed back earnings, from the sale of equities or by debt financing. In short, any arrangement that limits the severity of recessions makes it easier for all enterprises to raise capital. We should point out, however, that since recessions affect the yield of equity capital more than the yield of debt capital, any arrangement that limits the severity of recessions will particularly facilitate the raising of equity capital.

WILL the spread of the Ford-GM type of agreement discourage the expansion of business enterprises? The implied fear is that employers will hesitate to expand by hiring more workers, if each additional worker raises the employer's liability to make unemployment compensation payments. A few weak firms may, indeed, be so discouraged. Most enterprises, however, will provide whatever productive capacity is needed to give good service to their customers. They know that failure to make prompt deliveries will cause customers to shift their buying elsewhere. Hence, the willingness of enterprises to expand will be little affected by their liabilities under supplementary unemployment compensation agreements. And to the extent that the spread of the Ford-General Motors type of agreement limits the severity of recessions, the expansion of enterprises will be positively encouraged.

Will the Ford-GM type of agree-

ment cause workers to shift their expectations and look to unions, to collective bargaining and to employers rather than to government for further benefits? Among workers covered by supplementary unemployment compensation agreements, there may well grow up a tendency to rely less on government and more on unions, collective bargaining and employers. But, as we have pointed out, only a minority of workers is likely to be covered by such agreements. The thirty million workers who are *not* covered will be aware that they are less well off than the employees who gain supplementary unemployment benefits through union agreements. Hence, the uncovered workers will press more vigorously than ever before for substantial increases in the unemployment benefits provided by the government.

The Ford-GM agreements are likely, on the whole, to stimulate interest in government unemployment compensation schemes rather than to diminish it. The Ford-GM agreements will eventually help bring about increases in the benefits provided by the state programs.

This outcome will probably be the most valuable contribution of supplementary unemployment compensation agreements. In his last two Economic Reports, the President called attention to the need for making substantial increases in unemployment compensation benefits. Labor Secretary Mitchell, on the twentieth anniversary of Social Security, pointed out the need for much larger benefits and considerably broader coverage of the government's program.

Adequate unemployment compensation benefits are needed, not only as a matter of justice, but because they will help limit the severity of recessions. Only through substantial increases in government unemployment compensation can the incomes of the unemployed during recessions be raised sufficiently to make a large difference in the severity of recessions. If government unemployment benefits are fairly high relative to regular earnings, and if the coverage of the government plans is broadened, drops in the volume of employment will have little effect upon the size of personal incomes. The slight recession of 1954 shows that if personal incomes are well sustained, the drop in business will not become very severe. If state legislatures increase benefits authorized under state laws, the Ford and GM agreements will have made a substantial contribution to the stability of the American economy. ■

The Other Stock Exchange

by Sam Shulsky

While stock prices get wide publicity, little is said about events on the "other" exchange—where everything is sold "over the counter"

IN MY HOME TOWN, the names "Kodak" and "Sibley's" are among the first youngsters learn to pronounce. Kodak is where Daddy (or your friend's Daddy) works; Sibley's is the leading store, with the biggest toy display window at Christmas time.

But when you leave Rochester, N. Y. and step into the world of finance and investment, you are forced to readjust your thinking somewhat. Kodak remains an important financial name; its shares rank among the all-time blue chips; and daily quotations are published in hundreds of papers across the country. But Sibley's —despite the fact that it is sound, respectable, does a $28,000,000 a year business, makes profits and pays dividends—is practically unknown as a national investment medium. One reason for the difference is this: Kodak is listed on the N. Y. Stock Exchange. Sibley, Lindsay & Curr is traded "over-the-counter."

Before any tears are shed over Sibley's, you should know that "over-the-counter" is exactly where Sibley's wants to be. And it is an excellent, and very substantial, company.

What is this largest and oldest U. S. market place for securities —the "counter"? To start with, there is no single building which can be labeled the "Over-the Counter Market," in the same way that

the building at Broad and Wall Streets, New York City, is titled "The N. Y. Stock Exchange." The counter market is a loose organization of about 3,200 firms, with 38,000 salesmen extending clear across the U. S. and doing 99 percent of its business by telephone.

Now, securities exchanges are strictly auction markets, where your broker (representing one of 609 firms on the N. Y. Stock Exchange), armed with your order to buy a particular stock, walks to the trading post and calls out your bid in a loud voice. If he finds a broker there representing another investor who wants to sell the same stock at your price, you've got yourself a deal. If not, he must get your consent to bid higher or wait until someone else accepts your original bid. This is strictly an open auction market, and the transaction is immediately reported on thousands of tickers all over the country, and even abroad.

The counter market, on the other hand, is entirely a negotiation market. Brokers, acting for buyers and sellers—or for themselves—seek each other out over the telephone network and privately arrive at a price which satisfies them both. And there the matter ends. There is no open auction. The transaction is recorded nowhere but in the books of the respective buying and selling brokers and their clients. The whole deal is as informal as shopping around for the best trade-in price on an automobile. The bargaining is carried on for you by a broker.

Thus, if you were interested in buying Sibley, Lindsay & Curr stock, your counter dealer would scout around over the telephone, using as a rough guide a daily compilation of "bid and asked" prices which gives him an approximate idea of the market for thousands of counter securities and indicates which brokers are especially interested in buying or selling Sibley's.

Counter firms come in all types and sizes. Some are one-man shops, with a telephone, a few thousands in capital and little more. Nearly half the firms have five employees or less. But some of the biggest investment banking and stock exchange member-houses in the country also have large, active over-the-counter departments. In fact, Merrill Lynch, Pierce, Fenner & Beane, the world's largest brokerage house, which does more stock exchange business than any other firm, does 25 percent of its total business over-the-counter.

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The counter market itself is just as diversified as the securities exchanges. All types of securities are traded—everything from U. S. Government bonds to the flimsiest pieces of uranium mine paper; state and municipal bond issues; practically all bank and insurance company stocks; and many foreign securities. Prices run all the way from Los Angeles Turf Club, which trades above $50,000 a share, and Christiana Securities, around $16,000, down to the "cats and dogs" which bring a few pennies a share (and are rarely worth it). The most conservative as well as the most speculative shares are found on the counter.

Some are old (The Hudson's Bay Company, for example); some were born yesterday. In fact, shares of newly formed companies are almost always "seasoned" on the counter market before they acquire the financial background for stock exchange listing.

But the shares of many companies long known in industrial circles continue over the counter long after their issuing corporations could—if they wished—qualify for exchange listing. Plymouth Cordage, oldest of all the leaders on the counter market, has interrupted its dividend record only three times since 1832. Then there are Anheuser-Busch, Veeder Root, Weyerhauser Timber, M. A. Hanna Co., American-La France, Durez Plastics and, as mentioned above, practically all the country's biggest banks and insurance companies.

GENERALLY, the most important reasons for a security remaining on the counter are that its shares have neither national distribution nor sufficiently high trading activity to warrant a stock exchange listing. In some cases, especially where ownership is centered in a small, family group, the corporation itself does not desire exchange listing with its concomitant fees, quarterly financial and other reports which many corporate managements consider an unnecessary invasion of their private affairs.

It follows, then, that trading over the counter can be a far more rugged, individualistic affair than doing business on an exchange where transactions are carried out in a fishbowl atmosphere. Counter companies are under far less pressure to report promptly on sales, earnings, dividend actions, management purchases or sales of securities than are the exchange-listed companies. At the trading level, there is a lack of public information. Quotation sheets, furnished to the counter industry by the National Quotation Bureau, a private reporting service, represent a her-

culean effort to give the market prices daily of no less than 5,000 stock and 2,000 bond issues. (On a big day on the N. Y. Stock Exchange, 1,100 to 1,200 issues are traded.) These counter prices are obtained mostly from dealers. The quotation is published as a "bid" and "asked"—the first being the price the interested dealer will pay, the second the price he is asking. Neither, of course, can be more than an indication, since hours, or even a day may have elapsed from the time the price was quoted until it is published in the papers.

Despite the unknowns connected with it, counter trading has been rewarding to those who know their way around. Indeed, from a speculative standpoint, some of the best advances, percentage-wise, have been scored in recent years in counter stocks. Tecumseh Products, which makes air conditioning equipment, went from $1 a share to $108 in a dozen years; Cross Co., automation machinery, from below a dollar to about $64 in less time; Eastern Industries, which produces traffic signals, from 38 cents to $17; and Foote Mineral from $1.50 to $50. None of these may have enjoyed the page one newspaper display given to the advances in N. Y. Central or General Motors or Du Pont, but the dollars gained were just as real.

In fact, many a professional securities trader will tell you that this very lack of publicity redounds to the investor's advantage. He gets—they aver—all security, no glamor.

THE counter is a necessary market. Without it the ownership of thousands of American businesses—some large, most small—would be locked in, to the detriment of both present and would-be investors. Small companies, particularly, would be stopped in their tracks for lack of new capital; new ideas would never get beyond the blueprint stage. The presence of a market which allows a small firm to look for money is essential before an investor will even consider putting money into an enterprise.

If the Fulbright committee revives its "friendly" look-see into the securities business next spring and spends some time looking into the counter market, it may well do this important segment of our financial machinery a good service—even at the expense of displaying some dirty linen which invariably shows up at government investigations.

As it stands now, to the run-of-the-mill investor who seeks to put his spare funds to work where he can watch them, the counter market still remains pretty much uncharted territory. ■

How necessary is a *Free Economy?*

by Sidney J. Abelson

Unlike other living creatures, Man has a biologically "open" character which thrives on freedom and discontent

IF ALL the people in the world were asked to make a choice between some form of socialism or paternalism, on the one hand, and a free economy, American style, on the other, the chances are that the vote would overwhelmingly be in favor of the former.

Free enterprise, which has scored spectacular success, does not enjoy spectacular acceptance. Socialism, which has consistently failed to fulfill its promises, is still held high by many as a hope of mankind. The situation is truly paradoxical.

The defensive position into which advocates of the free economy have been maneuvered is a consequence not of an inevitable paternalistic tide but of an accident of human theorizing.

Karl Marx sought to draw on history and on contemporaneous social conditions for his essential data in formulating his theory of society. That his analyses and conclusions have not held up is not surprising. Each historical period reflects, in a broader way than Marx supposed, the limited information and inspiration available to it. The social failures of the past, the bases of Marx's conclusions, tell us only that men in any given society cannot transcend their limited knowledge or direction.

In this century we are in an especially advantageous position to understand man's social needs because we have learned a great deal about the human species and about the needs of each individual as a unique specimen. Man is a much more complex and mysterious creature than the social thinkers of the nineteenth century supposed. The multi-faceted science which Marx and his contemporaries did not and could not know —modern biology—has reached in our time new heights of insight and functional exactitude. From

this vantage, the nature of man and human society can be viewed with unusual, though not yet definitive, clarity.

The gulf between man and the lower animals is largely quantitative rather than qualitative, for practically every characteristic of *Homo sapiens* is found in rudimentary form in one sub-human type or another. Thus, for example, bees have a system of "talking" or communicating instructions to one another; some species of birds practice a form of art; beavers have great engineering abilities; squirrels have a system of economic planning; and apes display what seems to be some capacity for abstract thought. Man, of course, is so superior in these and other respects that he has mastered both the animal and plant kingdoms.

Yet, in addition to all this, man is endowed with one over-all characteristic, of great economic significance, for which there is no counterpart, however rudimentary, anywhere in the sub-human world: *man, and only man, is insatiable and implacable in his demand for an endless and unpredictable variety of satisfactions.* This is the unique quality in man which made it urgent, or, at least, "worth his while" to develop masterful skills incomparably greater than any in the sub-human world. This is the driving force of the human ecomomy, the essential for converting a "natural" economy into a system of economics.

The so-called lower forms of life are, of biological necessity, content to subsist. Man, on the other hand, seeks to subsist in a special manner. The human being is both tormented and inspired by his insatiable and unpredictable desires. He inherits one way of life from his ancestors and bequeaths quite a different tradition to his descendants. His actions are determined far more by learned motivations than by instincts. Individually and as a group, he is never content for long. And even if he achieved "perfection," it would serve only as a goad to set him off on a search for some seemingly more perfect state. There can be no enduring "perfect state."

The turbulence of human society presents a sharp contrast to the tranquillity and stagnation of the "perfectly ordered world" of ants. In the course of a mere few thousand years, man has transformed his society time and again. Are these upheavals mere accidents of of human whim? Our new understanding of man's biological character, including its concomitant

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"cultural" characteristics, seems to provide a better explanation.

Man has been favored with an evolution that is unique among the higher forms of life. The sub-humans diverged into specialized groups, some of which were capable of still further divergence. Each species was destined, by and large, either for extinction or a biological blind alley—i. e., the potential to do nothing more than stagnate in its specialization and to continue its existence in a stalemate with its environment.

Only the human being proved capable of repeated advances. The human species at first followed the standard evolutionary process of divergence into sub-species, the results of which we still see in the extant "races" of mankind. But, at some stage, the process of divergence was checked, and instead of continuing to branch off, the various human types interbred. Man remained, and remains, a single species, unhampered by the restrictions of evolutionary divergence and specialization. In evading this trap of speciation and specialization, the human being concurrently amassed an incalculable biological treasure: it acquired an *enormous range of variability* in capacity, needs and desires, which in the "normal" evolutionary process would have been lost to isolated species as they developed.

Thus, evolution has never stamped "finished" on man, though he seeems to have reached a culmination of purely organic development. Man's range of adaptability is constantly widening. He seems to have a limitless capacity to alter his environment and broaden the scope of his activities. In this sense, *Homo sapiens* may be said to live in a comparatively free field of biological opportunity and, in the very nature of this freedom, is completely unsuited for specialized, preplanned social arrangements such as the Marxians would impose.

NEITHER the mechanism of evolution, nor the exact basis of variability in species was adequately explained or understood until the early years of the twentieth century, when genetics was first added to the family of biological sciences. An explanation of the extraordinary variability of individual human beings then became possible. *Homo sapiens* possesses a fabulously rich pool of genes, the physical units of inheritance. Out of this vast "biological bank," each new individual human being draws his own special inheritance. Each recombination of genes that becomes the biological heritage of a human individual is not only unique, but carries with it a potential for variability unmatched by the genetic possibili-

ties of any animal species. Yet, great as is man's genic diversity, it is only the starting point of his variability. For culture, the consequence and by-product of man's biologically unique brain, generates among individuals a diversity of development, in addition to the already great hereditary diversity.

The resulting variability of human beings is indeed beyond calculation. The "common" or "average" man is a mere myth invented for statistical convenience. In terms of the individual, with his complex of "native" and acquired abilities, his needs, desires and his life views, there is no average man, nor can there ever be one.

BIOCHEMISTRY, another comparatively new biological science, casts an interesting sidelight on the variability of human needs. Research in this field seems to establish a significant difference in individual requirements for the basic elements that sustain life. Each person has his own *inherited* pattern of quantitative needs for calcium, the vitamins and other substances.

Thus, the new scientific knowledge has at last come abreast of the older philosophy of libertarians—and, broadly speaking, of the essential features of Adam Smith's approach to economics. Throughout the ages, advocates of liberty and of a free society have stressed the dignity, the individuality and the innate value of the human being. But in our time science has substantiated their argument. Each human being *is* a self-propelling force, with an implacable, built-in drive to satisfy his own unique combination of desires. And, even more significant, *this pattern of desires is, in general, never complete, never finally defined. Homo sapiens* has a biologically guaranteed reservoir of dissatisfactions.

In historical perspective, freedom is a noble aspiration. In the perspective of biology, if man is to continue to be human, freedom is an irreversible necessity, an indispensable condition for the development of *Homo sapiens.*

A society composed of individuals of pronounced and potent variability can hardly be other than restless and resistant to stagnation. Hence, man's social and economic arrangements are in more or less constant flux because man, as a species, and men, as individuals, are biologically constructed to function in a state of flux. But this poses a problem. On the one hand, the inescapable biological nature of man drives him into adventures of living; on the other, the painfulness of these adventures motivates utopian dreams and activates socialized

escapades intended to materialize these dreams. Trapped by his burdensome evolutionary inheritance, the human being eagerly seeks escape routes to security.

It is this wish to escape from the uncertainties of his "open" biological nature that makes man a more or less easy prey for socialistic or paternalistic schemes. But this hope of avoiding the stress and strain of his natural creativity, understandable as it is, is a vain one. Man cannot eat his cake and have it, too. He cannot be man the creator and man the automaton at the same time. Moreover, he has no choice in the matter. His nature is "open," and he therefore requires an open social system in which to function and flourish.

Socialism and paternalism—and every form of collectivistic or planned society—are mere episodic efforts to provide man with escape from his biological destiny. But biology will not be denied. In fact, history, such an excellent record of human error in this regard, shows how futile it is to expect that a closed political or economic system can be imposed upon the biological open nature of man. Whenever a planned or despotic social order has endured for any length of time, it has done so at the expense of human happiness. For no planner, however wise, and no despot, however benign, can ever grasp or cope with the vast and ever-changing capillarity of human desires.

The human being, a bundle of dynamic and implacable desires, must always seek a climate of freedom in which to find expression and fulfillment of his extreme individuality. The free enterprise economy, with all its imperfections, provides the most effective climate of this nature that man has been able to invent thus far. Yves Guyot expressed the point magnificently. He wrote, "Social progress is in direct ratio to the action of man on things, and in inverse ratio to the coercive action of man on man."

Everything that man has learned about himself cautions him to seek more individual freedom, not less. And it would be a mistake, in terms of the lessons of biology, to try to achieve economic and social perfection by reversing the direction of our free society or by abandoning the essential principles of our relatively free economy. ■

Still a Woman's World

DESPITE what gentlemen prefer, women would rather be brunettes, according to a successful beautician who has been giving New Yorkers their choice of hair coloring for the last fifteen years.

The literary portrait of the business executive, once painted in monotonously unflattering shades, is becoming human—and interesting

Discovering a New Hero

by Arthur S. Barron

A NOVELIST with the improbable name of Ignatius Connelley described businessmen in 1890 as "the most utterly worthless, destructive and damnable crop a nation can grow." Cameron Hawley, writing in the novel, *Executive Suite,* in 1953, described businessmen as "the builders of great companies, great institutions and great nations." Symbolized in these two quotations is a change of great significance in American life.

In the past, four distinctly unfavorable images of the businessman predominated in the work of American writers: the boor, the robber-baron, Babbitt and the bloated capitalist. Each of these images reflected the essential features of the historical development of our economy. As the economy itself changed, the conceptual picture of the businessman changed with it.

From the time of the Civil War to about 1890, the businessman was treated by most writers with the aristocratic distaste which the social elite reserve for the *nouveau riche.* The businessman was described as vulgar, narrow-minded and overbearing. This portrayal coincided with the emergence of the first great business

fortunes—a social challenge confronting the older and more accepted sources of family wealth.

The 1890s found the businessman pictured as the robber-baron. This image reflected the rise of the great industrial entrepreneurs, of unprecedented productive expansion and feverish speculation. Moral indignation, containing an undeniable element of awe, replaced the snobbish disdain with which the businessman had been treated earlier. The businessman was described as big, powerful and motivated almost exclusively by greed for wealth.

This picture persisted through the first two decades of the twentieth century, a period which witnessed the extraordinary growth of trusts and monopolies, the painful emergence of organized labor and the heyday of *laissez-faire* economics. The muckraker of that era, however, was not content to paint the businessman in vituperative colors. He attacked the social system the businessman represented, as well. The writer, as much critical of business as of businessmen, came to question the validity of capitalism itself.

QUITE different was the image of the businessman which appeared in the twenties. The prosperity, gaiety and unconventionality of the period developed a conception of the businessman which was satiric rather than critical. The businessman was viewed as a bumbling, humorless, unimaginative and altogether mediocre figure. He was taken to task by the writer, not for what he was, but for what he was not. And he was definitely *not* a successful human being. His business activity, instead of providing him with a sense of fulfillment and achievement, was viewed as providing him only with a source of escape from an empty and meaningless life. The figure of George F. Babbitt epitomizes this image. It is a more human and sympathetic portrait, but still not one of which businessmen could be proud.

During the thirties, the more inclusive criticism of the businessman, begun by the muckrakers in the early part of the century, degenerated into the doctrinaire radicalism of the extreme left. From out of the depression there emerged the proletarian image of the businessman as the class enemy. Though derived from different sources—the one from a genuinely liberal concern for reform, and the other from Marxist doctrine—the muckraker and proletarian images of the businessman had much in common. Both extensively criticized his personal

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life as well as his business activities. Both depicted him as monstrously evil and clamored for his removal.

It is clear from this account that ever since the Civil War, the businessman has served as a target for the writer's discontent with society. Verbally sniped at for more than seventy years, the businessman has been riddled with literary hostility.

Recently, a new image of the businessman has been developing in American letters. Written with warmth and understanding, the new portrayal reverses the hostile pattern of the past. It reevaluates the role of the businessman in our history, and it more sensitively analyzes the character and motivation of the modern businessman.

In fiction, the new approach is evidenced by the appearance of an ever-increasing number of novels whose chief characters are sympathetically drawn businessmen. Begun in the late forties with the novels of John P. Marquand (*B. F.'s Daughter, Point of No Return*), this trend culminated in a fabulously successful novel about businessmen which was made into a popular movie, *Executive Suite,* and more recently in a novel which currently heads the best-seller list, *The Man In The Grey Flannel Suit.*

In these novels, the businessman as an abstract and exaggerated social type disappears. He possesses, instead, a fairly normal mixture of the typical human failings and virtues. The issue of a moral choice (whether to continue working for a nonprofit foundation or to hitch up with a glamorous radio network, for example) is a major theme with the modern writer. The fact that the businessman frequently makes the wrong choice only adds to the credibility of his characterization.

For the first time, the writer makes it clear that positive goals, in addition to the drive for wealth and power, also motivate business behavior. The businessman, the new writers point out, *wants* to produce a better product, to exercise to the fullest his own creativity and to be of service to the community. The heroes of the new business novels, in short, are recognizable people. It is a great departure from the past that authors wish neither to condemn nor to praise, but only to know and to understand the businessman.

The number of histories being written of the nation's top business companies is also increasing. Not long ago, such a subject would have seemed faintly disreputable to most scholars. Harvard University's Research Center of Entrepreneurial History has already produced a score of volumes in the

field. The American Historical Association has established a special committee to encourage the study of business history and to bring the academic and business communities closer together. Scholars like Allan Nevins of Columbia University have devoted much of their efforts to a re-assessment of the role and significance of the entrepreneur in our country's development.

So successful has been the reconciliation between historian and businessman that the Communists are up in arms about it. One of their leading theoreticians, Herbert Aptheker, has written a monograph entitled, *The Laureates of Imperialism,* which viciously attacks those who have anything good to say about businessmen.

A significant change in the journalistic image of the business executive has occurred, as well. After studying the obituaries of leading American entrepreneurs from the time of Stephen Girard to Henry Ford, Professor Leonard Diamond of Harvard has concluded that newspaper editors are describing topflight businessmen in more human terms and that they are more strongly emphasizing their contribution to society than in the past.

Various explanations have been offered to account for this encouraging development in the writer's treatment of the businessman. As usual, the cynic is ready with his own facile interpretation. Pointing to the rapid growth in the number of business companies which maintain full-time public relations programs (4,000 at present), he claims that the businessman has simply bought himself a successful Madison Avenue "snow job." The political scientist, for his part, sees in the new image of the businessman a reflection of the widespread disillusionment with doctrinaire Marxism in recent years. The sociologist observes the growth of what he calls "competing elites" in our society (big labor, big government, etc.) and suggests that the real limitations which they impose on the power of the businessman are expressed in the new image. The philosopher speaks of a growing reconciliation between morality and the imperatives of a business society. He points to the substitution of the "gospel of service and production" for the "gospel of profit" in our American myth, and sees in the substitution a cause for a change in the conception of the businessman.

While recognizing the validity of these approaches, the economist naturally has his own explanation of the factors which have contributed to the new portrayal of the businessman.

The economist points first to the

fact that the job of running a large business organization has become an extremely complicated affair. Today, the management of business requires professional skills in a host of technical and specialized areas (finance, human relations, advertising, executive training, public relations, etc.). Of necessity, the old entrepreneur who ran things largely on intuition and bombast has been replaced by the highly trained products of our best business schools. The portrait of the businessman as crude, unlettered and all-powerful has been modified to reflect his new professional responsibilities.

In addition, recklessness, arrogance and irresponsibility were traits associated with the individual ownership of big business. Corporate ownership, however, necessitates the presence of precisely the opposite traits in businessmen. The job of successfully running a sprawling corporation demands cautiousness, the willingness to work cooperatively and a well-developed sense of social responsibility on the part of executive management. Inevitably, these traits came to be reflected in the image of the businessman.

The economist also cites the new concern with distribution problems as a major factor in the new portrayal of the businessman. Ruthlessness, adventurousness, an overriding concern with material things—all these were the traits which comprised the early picture of the businessman obsessed with building the nation's productive apparatus. But the modern businessman is concerned with the problems of distribution and salesmanship, as well. Increasingly dependent on the good will of the consumer, diplomacy, affability and a concern with people rather than with things became the businessman's characteristic traits. Soon these traits, as well, were absorbed into the public image of the businessman.

FINALLY, the nation's continued prosperity has contributed to the more favorable portrait of the businessman. As long as the country enjoys the fruits of production, it is difficult to maintain a completely negative view of the nation's business leaders.

This more flattering presentation of the businessman to the public does not mean, of course, that the business executive has become a national hero.

The new image *does* mean, however, that the status of the businessman is definitely improving. As long as the American economy remains dynamic and progressive, his status is likely to continue to improve. The businessman will be the first to admit that he is going to do his best to keep it that way. ■

"The Future of American Prosperity"*

by Philip Wernette

Professor of Business Administration,
University of Michigan

Dr. Wernette has made an authoritative and optimistic appraisal of our economy's future. The question-and-answer technique of this review lends itself to the use of direct quotations, from Dr. Wernette's work, which may explain what our readers want to know about the needs and direction of our future economy.—Ed.

Q *What is the underlying theme of this book?*

A The central idea . . . is that gloom is completely unwarranted, confidence in the future prosperity of the United States being thoroughly justified. Rising prosperity without depression *can* be obtained —a prosperity that will carry the average family's income from $5,000 a year in 1954 to $11,000 a year in 1999 (in dollars of the same purchasing power).

What the figures mean is that real incomes in the United States, at the end of the century, will be 2.5 times as high as at midcentury. This improvement will occur despite a gradual shortening of the workweek—to perhaps as few as thirty hours per week, with . . . summer and winter vacations for all workers.

If these figures for the future seem large, compare them with the increase in the first half of this century. The average per capita income, in 1954 dollars, rose from about $700 in 1900 to $1,750 in

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1950, a gain of 150 percent. In view of the immense sums now being spent on research, it is probable that the rate of technological progress will be higher in the future. . . . If so, the rate of economic progress will also be faster.

Q *Based on present trends we can anticipate a population growth to 304,000,000 in the year 2000. How will this factor influence prosperity?*

A It might be supposed that such a substantial population growth would have the "Malthusian" effect of reducing our living standards. Not so, however. Our living standards will continue to rise, concurrently with a population increase, as the two have risen simultaneously in the past. Average per capita real incomes may be expected to rise as output per man-hour increases.

Q *How rapidly will this output increase?*

A It has increased at about 2 percent per year in recent decades. Since many times as much research is being carried on [now] . . . 2 percent is conservative. Average per capita real incomes will, therefore, rise 20 percent per decade, provided that the work force remains in the same relationship, proportionately, to the total population.

Q *What are some of the other factors which justify your long-range optimistic view of the American economy?*

A Natural resources. The American people have been outstandingly enterprising in developing the nation's natural resources. Careful study of the marvels of scientific discovery has convinced this writer that new and better resources and materials will be developed before any major resource is exhausted.

Education. The "little red schoolhouse" is one of man's greatest economic inventions. Education improves the quality of work, of management, of investment and of enterprise.

Labor-management relations. The United States has been going through a period of growing pains in the development of collective bargaining. Progress has been made, however, much more than is commonly realized. The success of labor and management in increasing output per man-hour and dividing the increased income equitably will be a decisive factor in determining American prosperity in the future.

Business management. Training in business management, coupled

with the comparative absence of social stratification, provides a steadily rising number of men trained in management skills. If the trend continues, as seems probable, these conditions will be favorable to an enlargement of prosperity.

Capital investment. Within seven years, 1946-52, American industry invested 140 billion dollars in new durable equipment and a few tens of billions in new plants. A continuation of investment in new and better buildings, machinery and equipment will increase the output per worker.

Research. Research is the major method by which new knowledge is discovered. Specific ways in which [research] affects output per man-hour are . . . better machinery, better engineering, better efforts by employees, better management efforts, and improved methods, planning, equipment and tools. A continuation of a large industrial research program will contribute to increased future prosperity.

The real problem is how to provide enough monetary demand

Q *Prospects back in 1929 also seemed bright. Did the subsequent depression signify a reversal of the historical upward trend?*

A The drop in economic activity, in national output and national income, was so great at that time that it could easily have been mistaken for a change in the long-time trend. In fact, however, the slump did not indicate a drop in the supply factors and productive capacity. Output per man-hour rose throughout the depression. The decline was caused by inadequate demand.

Q *What then is the basic economic problem that the United States and other countries have to overcome?*

A In poor countries the economic problem is not that of maintaining full employment; there never is much unemployment in such predominantly agricultural countries. The real economic problem is how to raise per capita output. Their peoples are poor because the average man produces so little.

The economic problem in the high standard countries is substantially different. In the United States . . . the output per man-hour is so extraordinarily high that the real problem is how to provide enough

monetary demand to buy all the goods that all the workers can produce, thus keeping them all employed.

Q *How do changes in monetary demand influence the economy?*

A In a country that uses money, production and employment depend on monetary demand, that is, on the willingness and ability of people to spend money. Individual businesses, as well as the total of business activity, rise or fall with the volume of spending.

Fluctuations in business and employment are associated with fluctuations in [monetary] demand. A slump occurs when spending—on consumer goods or capital goods—is reduced.

After 1929 the serious decline in the money supply intensified the slump. The money supply stopped declining in 1933, but its subsequent failure to increase adequately prolonged the depression. The inadequacy of the money supply was not overcome until the financing of World War II resulted in a rapid and substantial gain in the amount of money.

Contrary to long-accepted economic doctrine, the amount of money and the rate of spending have a lot to do with employment, production, consumption, real incomes and prosperity. The injection of new money at times of threatened depression—in order to increase the money supply—would be an antidepression weapon.

Q *What factors must be considered in order to minimize fluctuations of monetary demand?*

A First, . . . there is a *long-run* need for more money. If the quantity of money grows too slowly, the result is a downward trend of prices; if it increases too rapidly, the trend is upward; if it rises at an appropriate rate, the trend of . . . prices is horizontal.

Secondly, the behavior of the money supply [velocity of circulation, the demand for money and the quantity of money] affects the *short-run,* cyclical fluctuations. If the money supply contracts when business is improving, [the upward swing will be affected negatively]. If, however, the quantity of money were to change in exactly the opposite manner, the [downward swing] would be reduced. This means that the amount of money should increase rapidly when business is declining and should increase slowly, or actually decline, when business is improving.

Q *Since the expansion of bank credit is the main source of new money, can we be sure that the banks will expand their loans and investments at the proper time?*

A The answer to this question depends not only on the ability and willingness of banks to lend and to invest, but of borrowers to borrow in future decades. Since [business] conditions have been reasonably favorable in past decades . . . we may presume that they will be reasonably satisfactory in the future—especially if the Federal Reserve System assures that its member banks have sufficient excess reserves.

The circumstances that contributed to the catastrophic decline in the money supply after 1929 will probably not be repeated in the foreseeable future. The banks are stronger and most deposits are now insured. For both of these reasons, excessive currency withdrawals are less likely to occur. Bank failures are likely to be very few in the future.

Government financial operations can be used to stabilize spending

Q *What can consumers and business interests do to promote cyclical stability?*

A Consumers can help . . . by not going on a buying splurge in time of prosperity (and running up excessive debt) and by not slashing their expenditures if business and employment decline.

Business can [help by] stabilizing their inventories, by avoiding over-inventorying in good times and by refusing to slash inventories when business declines. Businesses can also stabilize their purchases of equipment and machinery by following a similarly steady course.

Bankers and borrowers can stabilize the money flows and the quantity of money by avoiding both excessive expansion and undue contraction of bank credit.

Some of the actions listed . . . will require a great deal of restraint. Indeed, a careful businessman or banker who does not want to see his business or bank go broke cannot be expected to avoid contracting his outlays or his loans in time of a slump, unless he is sure that the slump is going to be mild and short, not severe and long.

Q *How can the government help minimize such fluctuations of monetary demand?*

A It is the writer's belief that . . . assurance of [monetary stability] can be provided by the operation of a functional fiscal-monetary system. In this system the financial operations of the federal government—tax receipts, outlays, deficits and surpluses—can be used to stabilize spending and, if necessary, to generate a countercyclical fluctuation in the amount of money.

Q *Does the role that you suggest for the government involve a drift towards collectivism or regimentation of private enterprise?*

A The answer is "neither." These policies [of monetary control] do not undertake to tell anyone what he may do or must not do. They do not tell anyone what he must produce or how he must produce it. They do not regulate the use of materials or of labor. They do not regulate specific prices or wages. They do not dictate consumer expenditures or business outlays.

In an over-all sense, to be sure, the policies do (and must, if they are to succeed) aim at influencing the *national aggregates* of some of these things. Some of these aggregates that would be so influenced would be: (1) the total of bank loans, (2) the nation's money supply and (3) the total of business and consumer expenditures.

The entire purpose of the government's program is to keep private enterprise from collapsing through some great future depression.

Q *Why is the problem of maintaining economic growth and stability so urgent at this time?*

A The job of demonstrating the successful operation of the free enterprise system is very largely up to our country. If the American system is improved and kept strong, it will furnish an example of the ideals which we prefer. If, on the other hand, it should be weakened, as it would be by continuous, substantial unemployment or (even more) by a severe depression, the world would slip rapidly in the opposite direction. A principal contention of this book is that we can keep this amazing industrial system of ours running at high speed and producing an even higher standard of living for our people, thus providing a world rallying point against Communism. ■

you may want to know...

SELF-HELP for nearsighted and farsighted persons is the keynote of *Relax and See*, a recent book by the head of the Hackett Eye Training Institute in New York. Published by Harper & Bros., it outlines ways to relax eye muscles and discusses day-by-day simple eye exercises.

Keep It Sharp

THE BLADES of household knives may loosen from their settings or wood handles may warp if you soak the knives in dishwater. Also, keep the blades in a rack or sheath, never loose in drawers. How much a knife costs is usually an indication of how long it will retain its edge before needing resharpening.

Brushing Up

OLD toothbrushes can still be very useful. According to a recent survey, the ten most popular tasks assigned to used toothbrushes are: to clean shoes, jewelry, typewriters, engine parts, stoves, tools, bathroom and kitchen fixtures, to clean between household tiles, to remove stains and for spatter painting. Among the more unusual tasks are scouring a pet turtle's back, smoothing cake frosting, applying ink to a stamp pad and wax or dye to a mustache. The handle alone serves as a nonconducting screw driver, a letter opener and a hole-maker for garden seeds.

Hot Tip on Tape

YOU CAN remove cellophane tape from wallpaper without damage if you heat the tape with a warm iron before peeling it off.

A Clean Face

TO CLEAN the dust and grime from an oil painting, remove the canvas from the frame and place it on a soft pillow to prevent cracking the paint surface. If the picture is old and has a coat

of varnish, use any standard commercial cleaner. If the picture is new, wash the surface gently with lukewarm soap suds, taking care not to flood the picture. Remove the suds with a cloth moistened with clear water. Then apply boiled linseed oil, or better yet, a dull finish mastic varnish.

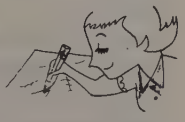
Smoothing It Over

WHEN sanding the inside of boxes or drawers, get at corners with a bit of steel wool held in a clip-type clothespin.

Canine Care

TO PROTECT your dog when he's being bathed, rub petroleum jelly around his eyes and put cotton in his ears. As for the problem of varying your pet's diet, experts say that once you find a food that satisfies your dog stick to it. Dogs do not tire of the same food each day. But take care not to overfeed him, for he will be more susceptible to ailments.

Starting from Scratch



YOU CAN hide surface furniture scratches with your child's wax crayon of the proper shade. Just rub the crayon in and blend with furniture polish or oil. If the scratch is a little deeper, say up to 1/16 of an inch, fill it in with several coats of white shellac applied with a fine paintbrush. Sand the last coat lightly and then apply the proper colored polish or oil.

Manual for Manuals

A 148-PAGE woodworkers' catalogue with full-color illustrations is available for 25 cents. Claimed to contain the widest sampling of fine domestic and imported woods, the book also lists prices for tools, project ideas and plans. Available from Craftsman Service Co., 2729 S. Mary St., Chicago 8, Ill.

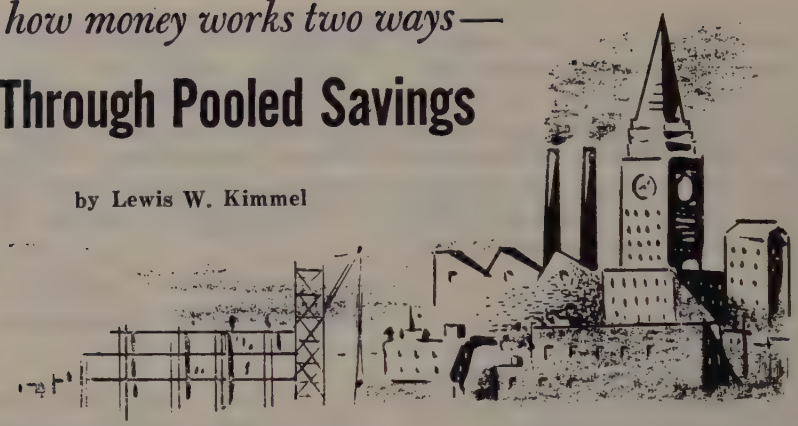
Frozen Assets

KEEP the door of your freezer closed securely in case of power failure. For then frozen foods will not be affected for 48 hours. But even if thawed fruits begin to ferment, they are still edible. Vegetables, on the other hand, spoil more readily and should not be eaten unless there is still some ice in them. The nose is still the best guide for determining the degree of spoilage. ■

how money works two ways—

Through Pooled Savings

by Lewis W. Kimmel



More and more of our capital needs are being met by the resources of insurance companies, pension funds and like institutional investors

ONE OF last year's more subtle, though still humorous, magazine cartoons showed company and union representatives seated around a bargaining table, arguing not about wages and working conditions but about what the rate of interest on a loan should be. To one interested in the structure of capital markets today, this cartoon highlights an aspect of a highly significant development: the sources of investment capital in this country are changing.

To a greater extent than ever before, the sources of capital are being "institutionalized"—that is, institutions which command large reservoirs of funds, pooled together from the savings of their clientele, are increasingly making these funds available for investment purposes. This practice is not a new phenomenon. It is at least as old as the oldest of the so-called thrift institutions—the mutual savings banks, life insurance companies and savings and loan associations. But with the growth of old and the emergence of new institutions, institutional investors of one sort or another today have come to hold almost one-fourth of all common and preferred stocks. In addition, their portfolios bulge with corporate bonds, real estate mortgages, and federal, state and local government debt obligations.

Such investors are made up not only of the thrift institutions already mentioned, but include, as well, fire and casualty insurance companies, investment companies,

bank insured personal trust funds, noninsured pension funds, health and welfare funds, college and university endowment funds, and the investment funds of foundations and religious or charitable bodies.

The special unemployment compensation trust fund established by the June 1955 Ford and General Motors Guaranteed Annual Wage agreements should also be mentioned, for if funds of this kind become fairly general through industry, they may well represent an important addition to the list of institutional investors.

The growing role of institutionalized investment raises a number of important economic questions. Is there any connection between the coincidental increase in the size of the funds of such institutions and the fact that only a small portion of industry's postwar capital requirements were financed by new stock issues? Will industry come to rely more and more on the practice of borrowing from institutional funds to finance its expansion plans? And if so, will such funds be adequate to meet the demands of a dynamic economy? Finally, will this institutionalization of the investment process lead to a shortage of so-called "risk" capital?

Before we attempt to answer these questions, let us clarify exactly what we mean by the phrase *institutional investment.* How does such investment differ from other forms of investment? When an individual saver makes his own investment decisions, he normally has two steps to take: he saves, and he invests. In institutional investment, however, there are three steps: an individual saves, he commits his money to some institution (he buys insurance, for example), and the institution does the investing. The saver's funds are pooled with those of others and invested as the institution in question sees fit.

Present trends suggest that this kind of investment will play an increasingly important role in providing industry's capital needs. A quick look at the capital market of the postwar years provides an interesting picture. In the January issue of CHALLENGE, George Soule pointed out that only 6 percent of gross business investment by American corporations since World War II was financed by selling stock to the public; that about 30 percent of the required funds were borrowed through bond issues; and that internal sources—retained earnings and allowances for depreciation, amortization and depletion—accounted for the remaining 64 percent.

Lewis W. Kimmel is a member of the senior research staff of the Brookings Institution and author of *Share Ownership in the United States.*

While these figures make plain that only a small portion of business expansion was financed by the sale of stock (bearing equity value), there is no reason to believe that the availability of institutional funds was responsible for this development. In the first place, a one-to-five ratio between new stock issues (equity capital) and borrowed funds does not tell the whole story. During this same period, retained earnings of all corporations averaged about ten billion dollars annually. Most of these earnings were available in liquid form for expansion of plants, equipment and inventories. While dividend-conscious stockholders may not appreciate this too much, it is nevertheless true that undistributed earnings, which also represent equity capital, largely financed the postwar economic expansion. There is no evidence to show that institutional investment funds have affected equity financing one way or the other.

Actually, institutional investors play an important, if *indirect*, role in the provision of equity capital. Since a large portion of the stocks held by institutional investors are purchased from stockholders who are willing to sell, what these former holders do with the proceeds of the stocks they sell becomes a leading question. Though no definite answer is possible, we do know that large blocks of institutional funds thus released are eventually invested, in turn, in other seasoned securities and that some are used to acquire new stocks.

Will the increasing institutionalization of investment dry up the risk capital available to new and unproved business ventures? After all, institutional investors must be careful, since they are, in a sense, playing with other people's money.

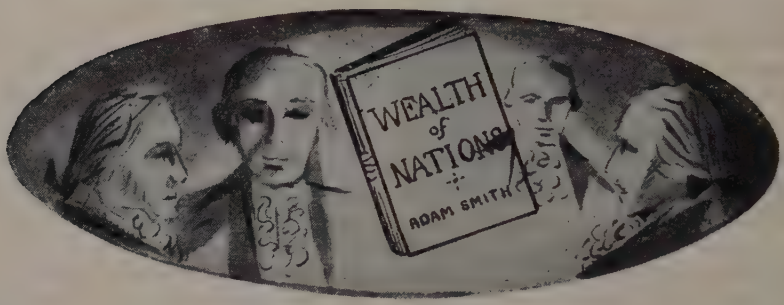
It is true that institutional investors, with minor exceptions, do not invest in speculative undertakings which involve above average risks. But this does not mean that the impact of institutional investment need in any way effect the supply of risk capital. Individuals still own about three-fourths of all publicly held common and preferred stocks. Even more important, most of these stocks are in the hands of upper income groups. According to an authoritative study by J. Keith Butters and Associates, slightly more than one-half of all privately owned marketable stocks in 1949 were held by spending units with incomes of twenty-five thousand dollars or more. Though they account for only about one-half of one percent of the population, it is investors such as these that industry must rely upon most heavily for its risk capital. Be-

cause high income investors are especially interested in capital gains—which enjoy favorable treatment under the federal income tax law—they are willing to assume big risks on the theory that any loss incurred will be more than offset by capital gains on investments that turn out favorably.

As we have already pointed out, by acquiring seasoned securities, institutional investors provide the seller with funds which he can in turn reinvest. Because of the concentration of share ownership among individuals in the upper income brackets, it seems reasonable to suppose that a considerable part of such funds become available to people who normally invest in risk stock. Exactly what portion of institutional savings indirectly ends up in the hands of new or untried enterprises in this manner is not known, but is probably quite large.

Another important question which might be raised is this: will the savings becoming available through institutions continue to find investment outlets in private industry? During a period of prosperity such as we have enjoyed for the last ten years, such a question may well appear academic. But should we suffer a depression, should the national income decline markedly, then investment opportunities especially for nonspeculative institutional investors would quickly dry up. If that were to happen, institutional investors would undoubtedly look to the public sector for investment outlets. The capital needs of all levels of government, particularly state and local, have increased tremendously in recent years. If private demands for investment money should decline even a little, investment in highways, schools, urban redevelopment programs, etc., would be stepped up. Institutional investors have available a large backlog of public needs to which they can put their moneys.

But this does not imply that public investment would be a satisfactory substitute for private capital expansion. In the long run, only continued private capital development accompanied and motivated by rising living standards, will assure us of meaningful economic growth. And it would seem to an unbiased observer that it matters little whether money comes from institutional sources or from individual sources. In the last analysis, what is most important is that the accumulated savings be there for investment in the proper place at the proper time. ■



After Smith: The Commentators

Economic thinkers start furnishing the house that Adam Smith built

THE IDEAS of Adam Smith, which we discussed in the last issue of CHALLENGE, were to exert an immediate influence on the economic thinking of the Western world. Even those who had never read *The Wealth of Nations* began to use the phrases and ideas of Smith—if not always in agreement, almost always in a frame of reference.

In this chapter, we shall discuss those followers of Smith who, while they often showed originality and critical insight, by and large adhered to their master's basic philosophy. Unlike Smith's more critical and pessimistic English disciples, Thomas Malthus and David Ricardo, economists on the Continent retained his essentially optimistic outlook. A glance at economic conditions on the Continent as compared with those prevailing in England at the time will help to explain why this was so. Overpopulation and rising rents, which were causing so much misery in the industrial cities of England, had not yet made themselves felt on the Continent where industrialization was only just beginning. On the other side of the Channel, it was easier to take a more optimistic view of things, since the disruptive influences of a new industrial economy had not yet assumed revolutionary proportions.

Perhaps the most important of Smith's followers on the Continent was the French economist, Jean Baptiste Say. Other Continental writers, like Karl Hein-

rich Rau in Germany, and Germain Garnier, Smith's French translator, commented on Smith's teachings. But it was Say's famous work, *Traité d'économie politique* (Treatise of Political Economy), published in 1803, which made Smith's ideas a household word among the educated classes on the Continent.

Born in 1767, Say became a businessman and politician as well as an economist. Like Smith, he believed that as long as the individual is left free to pursue his own self-interest, society as a whole will benefit. Left alone, the economy will function automatically, just like a self-winding watch. The object of Political Economy, therefore, is not to tinker with the economic mechanism, but to describe it and explain how it works. All attempts to change or modify the mechanism through governmental restrictions on the free flow of goods would, Say believed, prove disastrous.

Like Smith, Say was a stout believer in free trade, competitively determined wages and prices, and a minimum of government intervention in economic life. Also like Smith, but unlike Smith's pessimistic English followers, Say believed that such a policy would benefit *all* classes of society.

This is the eighth article of a series in CHALLENGE dealing with the economic development of man.

But Say did more than just popularize Smith's teachings. In one or two cases, he developed ideas which, though suggested by the gaps in Smith's analyses, were entirely original with him.

The theory for which Say is probably best known is his theory of markets, often referred to as Say's Law. Actually, it was not so much of a law as an insight or intuition, since at that time there was no statistical evidence to prove or disprove his theory. Baldly stated, Say held that goods and services can only be bought with other goods and services, money being just an intermediary which bears no intrinsic value of its own. If this is so, then every commodity put on the market creates its own demand, and every demand creates its own supply. "A product is no sooner created," Say remarked, "than it, from that instance, affords a market for other products to the full extent of its value." *General* overproduction, in other words, is impossible, although it may well happen that specific commodities will, on occasion, be produced in excess of demand. But whatever unbought surpluses may exist at a particular time are the result of government restrictions (tariffs, production quotas, etc.) which impede the natural adaptation of demand to supply, and supply to demand. If these obstacles were to be re-

moved, there would never be an excess of goods over buyers. Smith, therefore, was right when he maintained that, under perfectly free competition, demand and supply are always at equilibrium.

SAY'S LAW suggested that all crises are essentially transient and that under free competition a serious and prolonged depression is impossible. Of course, the experience of the last hundred years has not borne out this optimism. Even under perfectly free competition—and there has never been such "pure" competition in economic history—every new production would not *immediately* find its market; for human beings change their tastes and producers cannot always keep up with such changes. Inventories can accumulate, and whole industries can become obsolete, throwing people out of work and "destroying" income for other goods. Depressions, we have learned from bitter experience, are not economically impossible.

On the other hand, Say's insight illustrates a profound truth about economic activity: as goods and services are produced, income in the form of wages, rent, dividends, interest, etc., flows back to the various factors of production (land, labor, capital). In an economy where the income derived from production is spent to buy goods and to finance *future* production—in an expanding economy, in other words—production will, indeed, tend to provide its own market.

Say also introduced the entrepreneur into economic analysis. Following Smith's enumeration of the factors of production—land, labor and capital—Say added the entrepreneur as a necessary component of production. It is the entrepreneur who provides the connecting link between the finished product and the land, labor and capital that go into its production. Entrepreneurs are "the intermediaries who supply the productive services required for any product in relation to the demand for that product."

THE ONE place where Smith and Say part company is in their value theory. In this, Say is fairly typical of Smith's other Continental followers—especially in France—who all tended to reject Smith's labor theory of value. The value of goods and services, according to Say, depends not on the amount of labor required to produce them, but on the amount of pleasure or, as he defined it, the utility, these goods and services give us. Production he defines as the "creation not of matter, but of utility." Smith's distinction between productive and unproductive labor is,

therefore, meaningless, since the productivity of labor can only be judged by its utility and not by its cost. And all activities create utilities, as evidenced by their ability to command a price on the market. The very fact that labor is paid means that it is productive.

This theory of value assumes that man can calculate precisely how much pleasure a particular commodity will give him and that the pleasure of one man is more or less comparable with the pleasure of another—that is, the true value of a good reflects the "quantity" of pleasure it gives, not to just one individual, but to all men.

In a sense, these assumptions about man and what makes man tick were implicit in Smith's writings when he spoke of man rationally pursuing his own self-interest. But the English philosopher, Jeremy Bentham, gave Smith's concept psychological content. Man, according to Bentham, is a being susceptible to pleasures and pains, and all his actions are governed by the desire to maximize the former and minimize the latter. That, he contended, is what we mean when we speak of self-interest.

According to this view (known as utilitarianism) economics is nothing more than a study of the efforts of many individuals seeking as much pleasure (in the form of goods and services) as they can get in return for as little pain (in the form of work) as possible. While most of the English classical economists concentrated on the pains or cost side of the equation, Smith's Continental (and American) followers tended to concentrate on the pleasure or utility side. Put another way, English economists tended to think of economic value in terms of the pains that go into a commodity, its supply price, while Continental economists concentrated on the pleasures that a commodity would yield, its demand price.

After Say, indeed, there was no important Continental economist who adhered to the "dismal" (pains) economics which Malthus and Ricardo were spinning on the other side of the Channel. We shall discuss these important "dismal" economists in subsequent chapters. ■

NEXT MONTH: The beginnings of English industrialization provide the background for Malthus' pessimistic interpretation of economic development.

The Ever-Widening Fringe

by Anthony Broy

Extras in the pay envelope are getting bigger and more numerous

FRINGE BENEFITS, defined by the United States Chamber of Commerce as the nonwage labor costs of doing business, have mushroomed astonishingly within the past fifteen years. Sometimes known as "wage extras," "plus-wage payments" and "supplementary employee remuneration," fringe benefits became common during World War II when labor was scarce and a wage freeze prevented employers from boosting pay rates. To keep their help, employers initiated wage extras.

The Internal Revenue Code of 1942 also stimulated the growth of fringes, for it detailed how the cost of welfare and retirement funds could be deducted as a legitimate business expense. At a time when "excess profit taxes" ran up to 87 percent, this tax relief lured thousands of companies into inaugurating what has come to be a very important part of the fringe benefit movement.

But even after the war and the end of the era of wage freezes, fringes kept expanding. Indeed, it is part of the growth pattern of fringes that, once intitiated, they are likely to continue expanding. A Chamber of Commerce survey showed that in 1953 average fringe payments for 940 companies reporting came to 19.2 percent of the payroll, 34.6 percent of the payroll hour or about $720 a year per employee. This past summer the fringe benefit movement took seven-league steps, especially if we accept the opinion of Ford and General Motors executives that the guaranteed annual wage they agreed to is nothing more than supplementary unemployment benefits—"just another fringe."

The list of the various fringe benefits in existence is inexhaustible. In 1953 a labor union official undertook to catalogue them; he gave up at number 225. Today the list would be considerably longer. In fact, the field of wage extras is so complex that industrial relations specialists have attempted to systematize them. They have divided fringe benefits into two general categories. Into one are lumped those benefits which are mandatory under state or federal law, such as federal Old Age and Survivors Insurance (OASI), state unemploy-

ment compensation, state sickness benefits and railroad retirement payments.

The second category, growing far more rapidly, contains benefits negotiated through wage agreements. In the "negotiated" category are a variety of company-financed social insurance schemes, life insurance premiums paid by corporations, death benefits, sickness, accident and medical care premiums, hospitalization insurance and separation or termination pay allowances. Workers in department stores and consumer goods plants frequently take advantage of company discounts on goods and services, another form of supplementary employee remuneration.

Other sizable extras include payments for lunch periods, washup time, travel time, clothes-changing time, call-in time (when the employee is sent home because there is no work for him), holidays not worked, sick leave, state or national guard duty and jury duty. New and rather bizarre extras are also cropping up. Under an agreement negotiated this August between the American Smelting Company and the International Union of Mine, Mill & Smelter Workers, each employee's birthday was added to the list of paid holidays. In Martinsburg, West Virginia, Dailey Motors, Inc. provides a hearty breakfast for its employees.

ALTHOUGH wage extras are most commonly associated with blue collar and clerical workers, executive and supervisory personnel have not been overlooked, as the existence of stock options, pension plans, company-paid insurance, bonuses and profit sharing arrangements indicate. According to a recent American Management Association survey, executive salaries increased 4.2 percent between 1952 and 1953, while bonuses rose 6.8 percent.

Even civil service employees, for whom labor-management negotiations are illegal, find themselves the beneficiaries of better-than-average vacations, sick leaves and pensions.

But the growth of fringe benefits must be viewed not only as a factor affecting individual employees and the atmosphere of the workaday world, but also as an economic phenomenon of national economic and social significance. Fringe benefits have brought paid-for leisure to many families —leisure which has contributed to the changing patterns of recreation and suburban living. Fringe benefits have also brought a measure of security to workers who are retired and to those over whom

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Anthony Broy specializes in economic news stories for leading publications both here and abroad.

the threat of unemployment due to illness, accident or the business cycle hung heavy.

A feeling of increased security and greater peace of mind is reflected in the national political and economic scenes. Social insurance wage extras, for example, have introduced a stabilizing factor in the economy, since individual purchasing power could be maintained in time of recession. Fringe benefits also constitute another step in the process of the employer's appreciation of the employee as a human being, a step which has led, in certain areas, to increased productivity. The much-disputed coffee break, for example, does not result in production loss, according to tabulations made at one large plant, but conversely, speeds up production.

Yet, the fringe growth is not without its negative aspects. In an economic system which requires mobility of the labor force, mobility has been lessened by the growth of fringe benefits. Pension schemes, for one, tend to straightjacket workers into jobs, decreasing the manpower mobility so necessary for industrial vitality. And once initiated, fringes are constantly being extended. Since these extras are usually inflexible labor costs, business does not and probably cannot cut them back when trade and profits slacken. Thus, management may easily find itself saddled with expenses it can ill afford. This is all the more dangerous as workers have virtually no awareness of the cost of these extras.

On the government level, the federal Treasury is losing millions of tax dollars because most fringe benefits do not constitute taxable income for the workers who receive them. As a result, these benefits not only exert an upward thrust on prices, because they add to the cost of production, but they also bring millions of dollars into circulation which could set off inflationary tendencies.

Despite these liabilities, however, wage extras are here to stay. Some have offered the opinion that should the fringe benefit movement continue in its current direction, the value of the extras may some day exceed the money wage received. But since the ability of a company to provide extra benefits depends to a large extent on its productivity, the future growth of fringes will depend not only on how much and in what form workers want to be paid, but on how much the industrial machine can afford to pay them. ■

current trends and outlook

Economics in Action

the President's illness and the stock market; production continues strong; retailers stock up for record Christmas sales; business adheres to announced investment plans

THE PRESIDENT'S ILLNESS introduced a new element of uncertainty into all economic predictions. While basic **economic indicators** point to continued prosperity, some of the psychological steam appears to have gone out of the **inflationary boom** that was causing concern among economists earlier this year.

The immediate economic consequence of the political uncertainty was fairly predictable. The **stock market**, one of our more mercurial and less reliable **economic indices**, fared rather badly. In less than three weeks, more than 17 billion dollars worth of **stock values** were wiped out on the **N. Y. Stock Exchange** alone, and indications are that these losses will not be fully recovered for some time. Most economists believe that such a **market readjustment** was long overdue. In their opinion, news of the President's illness merely served to discourage some of that dangerous **speculative activity** which the Administration had unsuccessfully tried to check earlier this year by raising **margin requirements.** After the initial panic, moreover, the **stock market** showed considerable selective strength, reflecting the basic soundness of our economy.

Elsewhere, the President's illness did not yet exert any measurable impact on **economic activity.** In fact, all indications are that 1955 will average out as the **biggest year** in the history of **American business.** Steel mills, for example, are operating at close to **100 percent of capacity** and are behind on their delivery schedules. **Industrial production** is up in practically all lines and the outlook is for further spurts in **autos, textiles, chemicals** and **metals.**

The economy, moreover, appears ready to absorb this **expanded output. Consumer income** has been bolstered by recent **wage increases,** and **price hikes** have not yet percolated down to the retail level. The consumer, therefore, has every reason to spend liberally, and that is exactly what retailers expect him to do. They are getting ready for **Christmas sales volume** of at least 6 percent higher than last year's, and they have already adjusted their **inventories** accordingly.

The big question right now is what impact the President's illness will have on **long-range spending** —especially by business. At this writing, there is no evidence that firms are postponing their **expansion plans** because of **political uncertainty.** For one thing, expansion plans are not easily cancelled. Besides, conditions are such that in many industries expansion is essential to service existing markets.

All in all, we can no doubt look forward to a period of "normal" growth. ■

What Is Work?

by Henry J. Meyer

The answer keeps changing as the economy expands

A CURIOUS paradox has appeared in postwar economic life in America. On the one hand, labor productivity has risen—that is, the volume of production has increased faster than the man-hours worked. On the other hand, opinion in some quarters holds that workers often appear to be less efficient and less industrious than in former generations. In a generally tight labor market, workers do not seem to work as hard as managers remember they once did. Productivity is increasing, but workers seem to be individually less productive!

What is happening to create this strange impression?

The explanation is partly a matter of semantics. Because all production involves some human effort, it is convenient to measure productivity in terms of labor input. Of course, in this technological era, an increase in the volume of production is more often due to better machinery, more efficient management and other improvements than to greater effort or efficiency of workers. If new machinery, for example, contributes to an increase in the number of things produced by the same number of workers, the output per man-hour increases statistically. Hence, we have increased labor productivity.

Meanwhile, the individual worker may apparently—or actually—work less industriously. He may take more time off than in former years, appear to be more indifferent to production standards and be more inclined to exert less than his maximum effort. In short, he may seem to be less interested in producing—at least, as the manager or the consumer sees him at his job. Thus, labor produc-

tivity and individual productivity can mean different things.

Although its measurement is by no means simple, a change in labor productivity is, nevertheless, far more readily verified than a change in individual contributions to production. The one is an arbitrary statistic derived from comparing men and hours of work with the number of units produced. The other is a subjective concept, its meaning depending on standards of judgment which vary for different societies, for different historical periods and for different social groups and classes.

It may be, indeed, that changes in the individual productiveness of workers are more apparent than real. There are good reasons to believe that American society has been revising its conception of productivity as applied to the *worker*, even as it has been eliminating the traditional distinctions between productive and unproductive *work*.

LET US look at some of the changes which seem to be occurring in the value orientations which underlie American attitudes toward different kinds of work and toward work itself. By "value orientations," sociologists mean those unquestioned assumptions which the social system supplies as a foundation for our actions, attitudes and opinions.

Perhaps no consequence of the industrial revolution was more profound than the shift of income-producing work from the home to the factory. Although this shift did not necessarily minimize the economic role of the family for the worker, it did maximize the worker's role as a wage earner, as a man dependent upon employment for wages under conditions largely imposed by the employer. This dependence required the acceptance by workers of a logic of productivity which emphasized the quantity of their production. Such quantity determined their competitive success in holding a job and frequently the level of their wages.

Furthermore, the technological level of a century ago—even though advanced over that of the previous century—made machines more dependent on men than is the case today. Ultimately, of course, machines are useless without men to run them. But in the earlier period of industrialization, machines were essentially elaborate tools for workers to use; whereas today workers are relatively more ancillary to the machines they tend.

In the earlier industrial period, the volume of production, though

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vastly greater than formerly, still left the standard of living near the subsistence level. Even if distribution of the fruits of labor had been absolutely equal, there would still have been a low level of living. There simply wasn't enough production.

Under such circumstances, "productive work" was that which contributed directly to the output of the factory. If it was a necessary job in the chain of production, it was a productive job. And the productive worker could be judged not only by the quantity of his output, but by whether his attitude actually showed that he was interested in producing more. Under a factory system, both the kind of work and the kind of worker could be assessed by their contributions to production.

The developing industrial system activated forces which have brought about a changed conception of productivity of labor. There has been a continuous technological advance, of which "automation" is only the most recent label. New kinds of work were created to satisfy the technical requirements for production and to transport and market the increasing production. A modern business structure required an expansion of new, "white collar" occupations.

With these new kinds of work, the earlier and more simple bases for distinguishing productive and nonproductive work have been blurred. In addition, the real increase in the volume of commodities produced has raised the living standards of wider and wider segments of the population. What have been the effects of such changes?

In the first place, there has been a change in emphasis from manpower to machine power. It is generally recognized that technological advances are primarily responsible for the record-breaking production of steel, automobiles, television sets, bushels of wheat and canned tomatoes. With automation in the offing, it is evident that managed machinery is the largest component of our productive achievement.

As the division of labor becomes more complex and the individual worker's role in the production effort becomes smaller, less emphasis is placed on the product of the worker's *direct* labor and more on the consequences of his employment—that is, on what the industrial process produces and on what the worker's earnings are. More than formerly, the value of a job performed tends to be defined in terms of earning power. The wage which a job brings may be related in part to its functional importance, but it is the wage and not the function which dominates our evaluation of the job.

We all know what has happened to wages and income in recent decades in the United States. At no other time and in no other society has a large population such as ours achieved a level of living so far above that of necessary subsistence. This fact is yet barely appreciated by those who interpret economic life, but it is of transcending importance.

As the pressures of necessity cease to dominate economic motivation, the characterization of particular jobs as productive or nonproductive becomes more and more irrelevant.

Furthermore, the security of the worker becomes less and less dependent on the direct measure of his production. As the economy produces more, the individual worker comes to be viewed less as a producer in the older sense and more as a participant in the productive process. It becomes difficult to separate his productiveness from that of the total economy's.

From the viewpoint of the worker, technological advancement, the division of labor and a high plane of living create conditions which permit optimum rather than minimum values to control his economic decisions. Not that all workers have all they might want; but the achievement of a satisfying style of life is a definite possibility. Therefore, values other than financial ones can find greater expression in the choice of jobs and in the attitudes brought to working on the job. Off-the-job considerations can become relatively more important. Although this is sometimes seen as a loss of ambition by workers, it may more reasonably be interpreted as a gain of independence and security of status for all workers.

At the same time, a changing social structure has further increased the status security of American workers and reduced the pressure to appear productive. With increasing family income, the wives of workers and businessmen alike, responding to the same advertisements on radio and TV, shop for the same products in the same stores. Workers and bosses take their vacations in similar ways and often in the same places. Their children receive a common high school education and more and more go on to college. The traditional symbols of social stratification weaken.

Under these emerging conditions, it becomes less meaningful to speak of some work as productive and other work as nonproductive. The essential interdependence of all kinds of jobs in our complex and highly integrated

economy becomes more obvious to all. The contributions of each separate job become less important than the possibility it gives for sharing in the abundance of our output. We do not ask whether selling or writing advertisements is productive. Few question whether teachers or lawyers or entertainers are doing productive work. We ask, rather, whether the job is a good one—that is, does it satisfy the worker and at the same time bring an income which allows him to live appropriately in his social setting.

MOST of us today—workers, executives, businessmen, professional persons—do not ask ourselves whether we are productive. Rather, we ask whether we are successful. To be sure, success comes with adequate individual productivity, but it is not defined exclusively, or perhaps even primarily, in this way. Work on the job, and the job itself, is viewed as a means to an end outside of the work situation.

Nevertheless, the paradox noted earlier reflects a genuine problem. There can be no total substitute for the use of incentives which can spur personal productivity—however we might choose to define the constituents of that productivity today. But finding the right incentives which fit in with modern conditions will require imaginative thinking. Leaders in management and labor are already concerned with the problem. For example, interest in human relations as well as renewed interest in incentive programs are indications of this concern.

However, it would be well to keep in mind that as changing economic conditions create new attitudes toward work, many problems will appear. These problems will challenge business and labor leaders not to try to restore, in full, the values of an earlier era, but to use those of the present and the future creatively. We are not witnessing the decline of the old, American ideal of productivity; we are suffering the pangs of realization of that ideal. ■

Answers to True-False Quiz

(1) True (*see page 20*)
(2) True (*see page 11*)
(3) False (*see page 42*)
(4) True (*see page 24*)
(5) True (*see page 34*)
(6) False (*see page 46*)
(7) False (*see page 50*)
(8) False (*see page 59*)
(9) True (*see page 16*)
(10) False (*see page 29*)
(11) True (*see page 6*)
(12) False (*see page 54*)

DEBT AS A LUBRICANT

by Arthur R. Upgren

Debt can be an important means of financing economic progress

A POPULAR SONG of a generation and a half ago had a line in it which asked, "What's the matter with father?" To which the chorus answered, "He's all right."

Today, wherever businessmen gather, no question is more commonly asked than, "What's the matter with our debts?" Can our answer be, "Oh, they're all right"?

Well-informed Americans have a remarkably accurate "feel" for the problems of the day. They sense that a basic need of a growing society is an expanding economy. Fortunately, our economy has displayed, almost consistently, a dynamic capacity to expand. This economic growth has, however, been accompanied by such a rise in debt that our ideal of thrift has been frequently compromised.

Statistics indicate that the growth in debt and economic expansion have pretty much kept pace. In 1916, for example, total public and private debt was 82 billion dollars. At that time, our Gross National Product—the total market value of all the goods and services produced in the country in one year—was 49.5 billion dollars. By 1954 (a recession year) our GNP had zoomed to 360.4 billion dollars; but so had our debts zoomed—to 606 billion dollars. Now, is the debt side of economic expansion something *bad?*

Most economists would answer that question with a cautious "That depends." And, in truth, a definitive answer does depend on

numerous considerations, such as: for what purpose the debt was incurred; from where it was borrowed; how it was used; and a host of other factors.

Back in 1913 there was good cause to worry about debts, for our debts were owned by foreign creditors, mostly Europeans. That was a dangerous situation for the American economy to be in: large debts over here and all the liquid assets owned over there. But world-wide inflation during and after World War I enabled us to satisfy the tremendous wartime demand for all kinds of goods by selling at inflated prices, and thus paying back our debts.

During the twenties we found ourselves in another equally dangerous situation of increasing debts. This time it was a domestic matter. Much of the debt was in the form of mortgages, and in those days a mortgage debt had to be paid at one time in one lump sum. This put the country's debt structure in a precarious position, for once the economic situation seemed to take a downturn, mortgage holders panicked. Fearful of debtor solvency, mortgagees started wholesale foreclosures of farms and homes. It was not until after 1929 that we began to arrange our debts on an amortization basis of regular, carefully-planned payments. Today, nearly all debts are paid off in this installment manner.

Even more important, as far as economic stability in the twenties was concerned, there was inadequate bank liquidity—that is, the proportion of bank assets held in liquid (cash or cashable) form as against total deposits was too small. Even after the passage of the Federal Reserve Act of 1913, which established a flexible system of compulsory legal reserves for all national and most state banks and trust companies, the liquidity position of the banks was not entirely satisfactory.

For example, during the twenties the government was reducing the federal debt. Consequently, the banks became low on short-term government securities which had constituted a good portion of liquid assets. Since it was the policy of the Federal Reserve banks only to discount government papers, this shortage made the banks extremely vulnerable against sudden runs by panicky depositors. As a result, bank failures were all too common.

Then there were the doleful thirties, another time when our debt policies led us into a dangerous situation. Will Rogers best described what was happening when he defined the depression as

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a time "in which the American people are paying off their debts and not liking it." And that is exactly what was happening. The record reveals that from 1930 to 1933, total public and private debt was reduced by 22 billion dollars. Obviously, such a repayment of debt did not come from our pocketbooks alone. Most of it had to come from deposits held by the banks. As checks were written against those deposits to pay off debts held by the banks, the deposits were naturally reduced and money was literally destroyed. This debt reduction gave the American people tremendous economic punishment. While our need for jobs and goods kept increasing, our total public and private debt remained under the 1929 level for eleven years. Clearly, the withdrawal of so much debt from the economy contributed to the depression.

WHAT about today? Is our current level of debt dangerous? If our total public and private debt of 82 billion dollars in 1916 had increased only in proportion to the price level, the 1954 debt would have been 200 billion dollars. Actually, it was three times this amount. However, our 1954 GNP of 360 billion dollars was also three times the GNP of 1916 (in 1954 dollars).

In the days when we lacked bank liquidity, or when our debts were owned abroad, our current level of debt would have been excessive. Today, however, we own our debt in this country. Our banks are approximately in balance on debts *owned* and debts *owed*—and, of the debts owned, a large share is in the form of liquid short-term government securities and completely liquid reserves held by the Federal Reserve banks. Our bank liquidity ratio of 60 percent liquid assets against total deposits is the envy of bankers all over the world.

The consumer is in an even more fortunate position. His total debt today amounts to 100 billion dollars, only one-third the amount of his owned debts (assets, mostly liquid).

In fact, there are only two groups in America today whose debts appreciably exceed the obligations they own: business and government. Businesses have debts of 260 billion dollars, while the debts businesses own amount to 180 billion dollars. But is there any reason why business should pay for all the plant and equipment it wants out of present earnings? Clearly not. We have large amounts being saved, and savers want to invest these savings productively, thereby enlarging output and incomes—providing we use our debt instruments intelligently.

In the case of government, the disproportion between debts owned and debts owed is much greater. The debt of all levels of government amounts to 260 billion dollars; obligations amount to 60 billion dollars. There is no reason to believe that this kind of debt is necessarily any more dangerous than any other kind of debt which is put to constructive use; it can be healthy. But unlike other debtors, the federal government can incur debts which bear no relation to savings. Also, unlike any other debtor, the government can liquidate debt simply by inflating the money supply. Thus, the real problem is whether the government will be prudent and honest in its debt policies. As long as government keeps debt expansion in proportion to expansion of incomes, population and production, there is nothing *necessarily* dangerous about debt.

What, then, is the real problem of debt? It is one of maintaining a fair proportion between the incomes of those who incur debt and the total amount of their debts. It is one of maintaining reasonable liquidity in the form of cash or cashable assets in relation to debts.

A recent study by the Mellon National Bank and Trust Company revealed that in 1940 individual and noncorporate debt equaled 97 percent of total individual and noncorporate liquid assets. Technically, we were barely solvent. By 1954, however, this ratio dropped to 82 percent. Relative to our liquid assets, our growing total debt did not cause individual or noncorporate debt to increase. Together with our high bank liquidity ratio, this tends to indicate that we have learned to manage the technical problem of liquidity.

More fundamental, however, is debt in relation to the total disposable personal income of American families. The Mellon Bank study indicates that our total debt amounted to 70 percent of one year's disposable personal income in 1940. By the end of 1954, this debt burden was down to 65 percent. Clearly, there was no growth in the debt burden.

Debt is an integral part of the American economy—and it always will be. This is true for the simple reason that we cannot expect businesses or people to pay for all the durable goods they buy at the time of purchase—as long as there are other people willing and able to lend them the money.

Debts are another case of "duplicity" in economics. The debt *per se* may seem undesirable —and when it exceeds our ability to expand, it actually is undesirable. But when used wisely, debt can spur production and employment. That is wholly desirable. ■

Challenge Quiz

HOW WELL can you do with this true-false quiz? Test your ability to increase your knowledge through reading. Ten correct answers is Excellent; 9, Good; 8, Average. If you do the quiz *before* reading the articles, 6 correct answers is Good. Answers on page 58.

(1) Few of the biggest banks and insurance companies are listed with the N. Y. Stock Exchange.
True ☐ **False** ☐

(2) Employers alone finance state unemployment programs as well as the new guaranteed annual wage.
True ☐ **False** ☐

(3) Most of the individually-held stocks are in the hands of middle-income groups.
True ☐ **False** ☐

(4) Man has been able to develop greatly because he is not as biologically specialized as other animals.
True ☐ **False** ☐

(5) The average per capita income rose 150 percent from 1900 to 1950.
True ☐ **False** ☐

(6) Because industrialization was undeveloped on the Continent, the immediate impact of Adam Smith's philosophy was limited.
True ☐ **False** ☐

(7) Pension plans exert a stabilizing influence nationally by inducing workers to stay on the job.
True ☐ **False** ☐

(8) National debt has grown faster than national expansion.
True ☐ **False** ☐

(9) Industry will probably contribute less to the GAW reserve funds at a time when it can afford to contribute more.
True ☐ **False** ☐

(10) Except for the thirties, literature has portrayed the businessman in sympathetic terms.
True ☐ **False** ☐

(11) Big labor is considered a greater problem than big business or big government, according to an Opinion Research Corp. survey.
True ☐ **False** ☐

(12) As a result of our emphasis on national productivity, a job is valued more for what it produces than for what it pays.
True ☐ **False** ☐

Dept. of Better Mousetraps

From the World of Industry: a one-ounce hearing aid with a battery the size of a dime . . . a do-it-yourself beauty shop where customers get all the advice they need . . . colorful conveyor belts that reduce eye strain and increase inspection efficiency . . . a porcelain finish that looks like copper . . . a camera that takes pictures at a rate of 2,000,000 per second with a one ten-millionth of a second exposure . . . and a movie-projection system called Circama that throws pictures simultaneously on eleven screens, encircling the viewer and giving him a sense of "participation."

* * *

Personal Business: *a paper raincoat, sold in vending machines and thrown away after one use . . . a suitcase which separates into two compartments. One holds four suits and is hung up; the other stores shoes, lingerie, etc. . . . a cowhide belt with two concealed zippered pockets to hold spare cash . . . and, for sentimental brides, a chemical process which is claimed to make a fabric last "forever."*

* * *

Around the House: Specially prepared hickory chips for smoke-flavored barbecuing . . . and a portable electronic piano.

Sportsman's Delight: *an automatic fishing reel that brings in fish by itself . . . for beginning swimmers, a bright plastic ball with rubber handles . . . a regulation baseball attached to a 20-foot rope for indoor batting practice . . . a bicycle with a radio set in the crossbar which picks up stations up to 100 miles . . . nylon golf spikes which are lighter and more durable than steel models . . . and a plastic tube-and-valve device which enables a swimmer to breathe easily under water.*

* * *

Gadgets for the Car: a buzzer that warns pedestrians as soon as the car is shifted into reverse . . . all-steel garages that can be assembled with a hammer . . . a gadget which can repair punctures in tubeless tires while they are on the rim . . . a device which automatically applies the brakes when the accelerator is released beyond a certain point . . . Cruise Control, another gadget which allows the driver to set his speed and maintain it without keeping his foot on the gas pedal . . . and a "Snitchlite" switch, a sure aid to spotting car thieves. As the thief pulls away from the curb, the tail light starts blinking the word STOLEN in three-inch red letters. ■